

NEWS SUMMARY

GENERAL

Irish link in Paris arrests

Three people arrested in Paris this weekend were reported to be members of the Irish National Liberation Army, the political arm of the Dublin-based Irish Republican Socialist Party.

In France, an Elysée Palace statement said Michael Plunkett, Stefan King and Mary Reid were being held in connection with alleged plans for attacks on British targets in Paris and The Hague. It was unclear whether the authorities suspect any connection with the spate of attacks in Paris, mainly linked with Middle East disputes.

The INLA is an illegal organisation in Britain and Northern Ireland, but not in the Irish Republic. Page 2

TUC threat

Len Murray, TUC general secretary, said yesterday the industrial action taken so far in the National Health Service had to be stepped up to persuade the Government to listen. Back Page

Carnival success

London's 17th Notting Hill Carnival went off with a flourish this weekend attracting record crowds. Few people were arrested mostly for minor offences.

China congress

The 12th Congress of the Chinese Communist Party which begins on Wednesday is likely to call for the re-registration of all party members. Back Page

Talks cancelled

Iraq has decided not to go ahead with a meeting of non-aligned foreign ministers in Baghdad due to open later this week.

Belgium arrests

Belgian police arrested 10 people near Bruges as protesters stopped two trains carrying radioactive waste due to be dumped in the Atlantic.

Ingrid Bergman

Ingrid Bergman, one of Hollywood's biggest stars and winner of three Oscars, has died in London aged 67 following a long illness. Page 10

29 runs to win

England needs 29 runs to win the Third Test against Pakistan with 4 wickets remaining.

Drug control call

The UK Office of Health Economics has called for more refined methods of measuring the effects of new medicines. Page 5

Bulgarians held

The Mozambique Resistance Movement reported it was holding five Bulgarians and had killed 10 government soldiers following attacks over the past two days.

Monster marrow

Security guard David Payne of Tewkesbury, Gloucestershire, has grown a 105 lb marrow, setting a new world record.

Briefly...

Sebastian Coe set a new men's 4 x 500 metres world record at Crystal Palace yesterday.

The Soviet Union has completed its first solar-powered village in Turkmenia, Central Asia.

Nahum Goldmann, a former president of the World Jewish Congress for nearly 30 years, died aged 88.

British day-trippers to Calais on an estimated £30m-£50m a year.

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Government seeks to avoid revealing public sector pay indicators

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

THE GOVERNMENT faces major embarrassment over plans to avoid disclosing its views on the likely increase in public-sector pay next year.

Last autumn it announced an official "assumption" that the public-sector pay bill would rise by 4 per cent this year. This "assumption," needed for preparation of public-expenditure estimates, was widely interpreted by the trade unions as the opening move in the Government's strategy for the 1981-82 public-sector pay round.

This year, however, Sir Geoffrey Howe, the Chancellor, is anxious to avoid revealing the Government's overall pay assumption for the public sector. This is partly because it has become clear to ministers that the same gambit could misfire in preliminary to a general election.

The main difficulty is that any figure below last year's 4 per cent can be provocative to the unions if inflation is running at the expected annual rate of 7 per cent to 7½ per cent by autumn.

A 3 per cent "pay assumption," for example, would probably be represented as a government plan to cut the real value of public-sector pay by 4 per cent. Such a construction, it is feared, might stir the miners to discontent.

Conversely, the Government does not want to announce, or to see leaked, a pay figure for this year higher than last year's 4 per cent. This, it is felt, would give a quite false impression that the Government intended to relax its grip on public-sector pay.

Treasury officials, therefore, have been examining the possibility of drawing up next year's spending plans in such a way that the vital figure is not revealed to the public.

One possibility under discussion is that departments could be given cash budgets which had no provision for any increase in public servants' pay.

The Treasury would instead put an extra sum into the Contingency Reserve, to meet pay increases after they were

settled. This idea, however, conflicts somewhat with the spirit of the new cash-planning system under which departments are allocated a lump-sum to cover all their spending, including that on wage bills and capital projects.

It is likely the Government wishes to see public sector settlements at the lower end of the range. It is not expected, however, to be planning for public sector increases to be held a long way below the going rate for the second year running.

This idea, however, conflicts somewhat with the spirit of the new cash-planning system under which departments are allocated a lump-sum to cover all their spending, including that on wage bills and capital projects.

Another difficulty is that departments must use some pay assumption for next year in order to plan the breakdown between their current and capital spending. This figure

is likely to be supplied by the Treasury and might well become public knowledge.

The Treasury is faced with the further difficulty that last year's 4 per cent figure was partly an assumption for planning purposes, partly an estimate of the final outcome and, most importantly, an opening bid. Its estimate of the outcome may differ considerably from any published assumption.

The Civil Servant's pay settlement this spring, for example, was for an increase of 5.9 per cent, and total public service pay settlements have averaged between 6 per cent and 7 per cent.

In the economy as a whole this year, settlements have averaged a little over 7 per cent and earnings have increased at an annual rate of a little under 10 per cent.

The Treasury's best estimate for next year's pay increases is probably about 5 per cent or 6 per cent, similar to its assumptions about inflation.

It is likely the Government wishes to see public sector settlements at the lower end of the range. It is not expected, however, to be planning for public sector increases to be held a long way below the going rate for the second year running.

On the basis of its surveys and the recent rather gloomy official statistics for output, stock levels, capital spending and imports, the CBI is now forecasting that total UK output this year will be only ½ per cent higher than last year.

For 1983, it is now forecasting growth of only 1.5 per cent compared with its previous prediction of 2 per cent published in the spring.

One of the main reasons for the more pessimistic outlook is the worsening prospects for exports as a result of the continued depression of the world economy. The CBI now believes exports will grow by only about 1 per cent this year and 1½ per cent next year compared with a growth of 6½ per cent in imports this year and 5 per cent next.

However, it believes that inflation will come down to an annual rate of about 7 per cent by the end of this year, and that this lower-than-expected rate will boost consumer spending by about 1½ per cent in real terms next year.

Continued progress in reducing interest rates would, however, depend on the success with which a resurgence of inflationary expectations could be prevented, he told the meeting.

Sir Geoffrey, cautiously defended the record of the World Bank and announced that the UK would pay its full £185m contribution to the Bank's soft loans arm, the International Development Agency (IDA) for 1983.

The extent of international contributions to IDA this next year has been in doubt because of a decision by the U.S. Congress to defer part of its \$2.34bn contribution previously agreed for 1981-83.

It was clear that the Reagan Administration—which had a basically different economic approach to its predecessor—needed some time to determine its policy course. Herr Lahnstein said: "But it would be dangerous if it came to a blocking of important international decisions," not least after the broad record on IMF and World Bank matters already reached at the Western Economic Summit in Versailles in June.

Herr Lahnstein also said Bonn shared Washington's view that free and fair world trade were in everyone's interest.

In Denmark yesterday, however, Herr Lahnstein said the European Community did not intend to harass the U.S. Administration.

EEC Finance Ministers agreed at an informal meeting in Hornbaek to continue to press for further and "durable" reductions in U.S. interest rates, Hilary Barnes writes. But, the

continued need to cut in

interest rates was singled out by Ministers as a key factor which could improve the economic climate, which was viewed with general gloom by all the EEC's finance ministers.

They agreed that there would be no upturn in the European economy this year, and hoped, rather than expected, that things would improve in 1983. All countries expected unemployment to rise again next year, with the exception of the U.S., which hopes unemployment will level off.

Continued on Back Page

South-East optimistic Page 4

CBI says worldwide slump will continue

By Max Wilkinson, Economics Correspondent

A CONTINUING slump in the world economy and almost no growth for the UK this year are forecast today by the Confederation of British Industry in its latest Situation Report.

The CBI outlook is even more gloomy than the warnings of economic stagnation which followed its quarterly survey of industry last month.

Since then companies have reported increased pessimism about export orders and a greater tendency to believe stock levels are too high as well as slightly worsened prospects for output.

The only cheerful aspect of the CBI's latest monthly inquiry of industry is that inflation will be reduced.

Reports from the regions generally confirm the view that there will be little increase in economic activity for the rest of this year.

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It is also expecting some contribution to growth next year from a rebuilding of stocks after a further small reduction of stock levels this year.

Companies' real profitability is expected to recover from an average of 2.8 per cent last year to about 3 per cent this year, but the CBI points out that this compares with about 5 per cent at the bottom of the 1975 recession and more than 10 per cent throughout most of the 1980s.

Continued on Back Page

South-East optimistic Page 4

Police mass to crush Solidarity demonstrations

BY OUR FOREIGN STAFF

POLICE went on the alert in Poland's major cities yesterday, ready to snuff out mass demonstrations to mark the second anniversary of the Solidarity trade union today.

Dozens of armoured personnel carriers, water cannon and police trucks were moved into Warsaw's main squares and other areas destined as gathering points by Solidarity's underground leadership.

Helmeted forces, from squads with crowd dispersal training, patrolled some main streets.

They have also said, in scattered leaflets and bulletins, that the demonstrations are to back their demands for a renewed dialogue with the Communist authorities and that, if the protest call is ignored, it could show the underground is broken.

Last week government leaders mounted a campaign of speeches and Press articles saying the organisers were preparing to stage a general strike followed by a possible armed insurrection.

Yesterday's Press timed down this approach. "A responsible line for prudence rests with every single citizen," the Communist Party's daily Trybuna Ludu said.

The papers carried warm praise of the August 31, 1980, records, which ended a summer of worker unrest and opened the way for Eastern Europe's first independent trade union.

"The country is again need of the social will which gave birth to the August agreements," wrote the normally hardline army daily Zolnier Wolnosci.

The message of the Press was that the agreements reached two years ago tomorrow began a process of social and socialist renewal which must not be halted.

Bendix shares suspended

BY RICHARD LAMBERT IN NEW YORK

TRADING IN Bendix Corporation's shares was suspended yesterday as directors of Martin Marietta were meeting to consider Bendix's \$1.5bn offer for their company.

The suspension reportedly came at the request of the Martin Marietta board, leading to renewed speculation that the company might be contemplating a retaliatory takeover offer for Bendix itself.

Rumours of such a bid sent Bendix's shares up to \$57 before the suspension, compared with about \$51 when it announced its bid for Martin Marietta, a diversified aerospace group, last week.

Bendix has been diversifying its engineering activities away from the automotive sector for the past five years. It had acquired about 42 per cent of Martin Marietta's stock before the offer was announced last week.

Martin Marietta is a leading contractor on projects such as the space shuttle, the Titan III space launch vehicle and the MX missile. It is also a major producer of cement and had a large chemicals interest.

Wherever it's being... excavated, shifted, levelled, crushed, graded, compacted or transported...

Shake-up at Continental Illinois

BY PAUL TAYLOR IN NEW YORK

CONTINENTAL ILLINOIS, the first phase of an internal inquiry into the impact of last month's Penn Square failure which sent shock waves through U.S. banking.

OVERSEAS NEWS

French police arrest INLA suspects in Paris suburb

BY DAVID MARSH IN PARIS

THE FRENCH authorities appear to have scored a preliminary success in the fight against terrorism following the arrest in a Paris suburb at the weekend of three persons suspected of being members of the Irish National Liberation Army.

The swoop, made by a crack squad of the National Gendarmerie Intervention Group, was hailed in a dramatic though sketchy communiqué from the Elysée Palace on Saturday night as an "important" development "in the circle of international terrorism."

President François Mitterrand has staked an important part of his political standing on Government measures to track down the authors of the wave of terrorist attacks which have hit Paris over the past six weeks.

Last night it appeared that the three Irish people—two men and a woman, named late yesterday as Michael Plunkett, Stefan King and Mary Reid—were being held in connection with alleged plans for attacks on British targets in Paris and The Hague.

The Elysée Palace statement said that documents and explosives had also been seized in the raid. But it was unclear whether the authorities suspect any connection with the recent spate of terrorist attacks in the capital, mainly linked with Middle East disputes.

Thomson group shake-up may strengthen new chief

BY OUR PARIS CORRESPONDENT

A PERSONNEL shake-up at the top of France's nationalised Thomson group looks likely to strengthen the hand of M Alain Gomez, the dynamic left-winger appointed by the Government in February to head the electrical goods-to-arms conglomerate.

The move is a further step in the Socialist Government's efforts to strengthen control over key state-owned industries whose investment and research decisions are seen as increasingly important to France's economic future.

M Jean-Pierre Bouyssonne, the present chairman of the group's electronics and military arm, Thomson CSF, is expected shortly to resign his post and hand over to M Gomez, already chairman of the parent company, Thomson-Brandt.

According to newspaper reports in Paris—on which the

In the worst incident, on August 9, six people were killed in the city's central Jewish quarter in one of a series of attacks on Jewish and Israeli targets.

Ten days ago a bomb near the Eiffel Tower killed a police bomb disposal expert. It was believed to have been aimed at a U.S. embassy official living nearby.

President Mitterrand has seen his popularity in the opinion polls drop sharply since the start of the new wave of attacks—which have coincided with a period of gloom on the economic front.

In an unprecedented television interview in mid-month, he announced his personal determination to confront terrorism and unveiled a string of toughened Government measures aimed at reinforcing security.

Another fruit of increased police surveillance may have been the separate arrest at the weekend in Paris of an alleged Italian terrorist, Oreste Scalzone, sought by the Italian authorities for several years.

The arrest of the alleged INLA members, while welcome as a sign of efficiency in anti-terrorist operations, may have reopened old wounds in the traditional running battle between members of France's domestic security forces.

Warsaw fears coal earnings weakening

By Leslie Colitt, recently in Warsaw

POLAND'S exports of coal this year, the country's main hard currency earner, have already exceeded all last year's shipments, but Poland is encountering stiff competition from the U.S. and other coal exporters in its traditional Western markets.

Doubts are also being expressed whether it should rely so heavily on coal and other raw materials to earn convertible currencies with which to pay off the country's \$25bn debt.

Poland exported 16.1m tons of coal until August 10, of which 7.4m went to other Comecon countries and 9m to the West. Coal shipments last year totalled only 15m tons, compared with a record 31m tons in 1979.

Mr Jerzy Malaia, the deputy minister of coal-mining, said this year's target is to export 28m to 30m tons of which 12m will go to Comecon and 18m to Western Europe.

Mr Malaia said achieving this goal in the West will be difficult as Poland had "lost many markets" in other coal exporting countries and must regain the confidence we lost."

The Polish official said U.S. coal exporters had moved into France, Austria and Scandinavia, where British coal was also being sold, after Poland was unable to fulfill its contracts. He said even South African coal had been delivered to Western Europe.

Mr Malaia noted that Western markets are glutted with coal, while the depressed steel industry makes coking coal equally hard to sell. But he said the price for Polish coal—an average of \$55 to \$68 per ton—is the same as last year and that no dumping is taking place. Western commercial sources said the price of Polish export coal was lowered to meet the changed situation of Western markets.

The deputy mining minister maintained that over the longer term the outlook for Polish coal exports is good. Polish coal is low in sulphur and Poland could sell coal cheaper in Western Europe than the Americans, because of its lower transportation costs.

He said Austria, with whom Poland has a long-term agreement to supply coal, has abandoned its nuclear energy plans and has turned to conventional coal generated energy.

However, within Poland, there is now a growing debate whether the country should continue to rely so heavily on exports of coal, copper, sulphur and silver. Polish economists point out that the cost of extracting coal and other raw materials has greatly increased in the past two years.

Falling orders hit U.S. machine tools

By Paul Taylor in New York

U.S. MACHINE tool orders, a key indicator of the health of the economy, fell a further 14 per cent last month, mainly because of a dramatic collapse in overseas orders.

The latest figures from the National Machine Tool Builders Association show that orders from U.S. and overseas companies fell to \$107.75m last month from \$125.9m in June and \$132m in the same month last year.

Despite a 6 per cent increase in U.S. company orders which grew from \$84.4m in June to \$89.2m in July, orders from overseas companies slumped. Foreign orders fell from \$41.5m in June to \$18.6m in July.

The latest figures mean that total orders in the first seven months of the year at \$987.2m have fallen about 50 per cent compared with the same period last year.

Mr James Gray, the association's president, said the July decline had been expected in view of the continuing recession and added that economic conditions were "not conducive to a return of confidence or buying enthusiasm."

Officials of the United Steelworkers Union have agreed to consider proposals by the major U.S. aluminium companies to alter the current three-year contract, which is not due to expire until next May. But the industry's request for talks has been rejected by the other union involved, the Aluminum, Brick and Clay Workers International.

The three main companies—Aluminum Company of America, Reynolds Metals and Kaiser Aluminum—will be putting their proposals to the Steelworkers Union this week. On Friday, leaders of the aluminium locals will vote on whether to make concessions to ease the industry's current problems.

FINANCIAL TIMES published details on Sunday and today. Subscription rates \$365.00 per annum. Second class postage paid at New York, N.Y. and at additional mailing centres.

Party admits shortages and dissent in nationwide telex. Christopher Bobinski reports

Poland steels itself for anniversary protests

GENERAL Wojciech Jaruzelski's problems controlling Poland's working class would be greatly eased if people's everyday needs could be satisfied and shortages could be reduced.

This is the official Communist Party view circulated last week as the military Government steered itself for today's second anniversary of the Gdansk Agreements which led to the formation of the Solidarity union movement.

Police patrols were noticeably thinner on the ground, in Warsaw at least, and commentaries in the Press repre-

sented the accords with workers signed two years ago by Solidarity as a positive development which had gone wrong thanks to the efforts of "enemies of socialism." But these agreements could still be the basis of future, ill-defined, democratising reforms, the commentaries said.

However, in a speech at the weekend to graduates from the military academy in Poznan, General Wojciech Jaruzelski narrowed down the freedom

of manoeuvre of any future unions by saying that they would be "independent of the administration" meaning the government, and thus, by implication, not of the Communist party. He called for calm and implied that the authorities would crush any demonstrations.

Meanwhile, on Sunday, church congregations heard a bishops' letter which called for a resumption of talks with Solidarity.

refuse to go out on to the road on August 31, using the poor state of their tyres as an excuse.

The telex notes that indeed 3,000 tyres used on Warsaw buses are exceedingly worn.

In Olsztyn leaflets calling on workers from the Stomil works to march to the former union headquarters have been distributed. The telex says marches are also being organised in Radom.

But throughout the country, the telex says "the basic topic of conversation is the unsatisfactory state of supplies of food and durable goods in the shops and the rise in the cost of living."

In Tarnobrzeg, "the queues for meat begin to form at 3 am and 4 am in the morning. There are also queues for children's footwear."

Speculation, the telex says, is uniformly unpopular.

At the Gdansk Lenin Shipyard the two themes in the document of agitation by "hostile elements" and day-to-day economic problems come together.

Air of impermanent peace hangs over vulnerable Bekaa Valley

BY PATRICK COCKBURN IN JERUSALEM

THE BURNT-OUT remains of two Syrian armoured personnel carriers squat behind the hill. A mile or so away, across an open field, where a large herd of black goats graze, the Syrians hold the village of Ghazze, from which rises the white spire of a minaret under construction.

While the ceasefire holds, the Israeli lines have a lackadaisical air. Joub Jannine is decorated with Lebanese flags, and posters of the youthful features of Mr Bachir Gemayel, the newly-elected Lebanese President, though nobody has yet to remove the more flyblown pictures of Ayatollah Khomeini.

Israeli soldiers hitch-hike backwards and forwards from their units, their freedom of movement indicating that guerrilla activity against them is considered negligible. Yesterday, however, an Israeli soldier was injured by a landmine a mile to the east of Joub Jannine.

There has been no serious fighting in the Bekaa since that time. A little north of the village of Joub Jannine, the Israelis hold a half-completed hospital, built on a low hill in the centre of the plain. Bulldozers are at work heaping up the ramparts.

The Israeli Government has said that the Syrians are reinforcing their positions. Front line troops say they have seen nothing of this, though Gen Mustapha Tlass, the Syrian Defence Minister, confirms that

he is dispatching reinforcements to Lebanon. It is doubtful, however, if more Syrian tanks and infantry will make much difference to the military position in the valley. For the Syrian armoured brigades, it is a death trap. The Bekaa is more like a vast canyon than a valley, seven or eight kilometres of flat land and then the mountains soaring up to over 6,000 feet, to the west.

The Syrian positions are all overlooked by Israeli observation posts on Jabal al Barouk on the western side of the valley. From a half-completed ski resort on the mountain top, Israeli soldiers can see the whole valley laid out at their feet, like a big-scale map. Even the Syrian hill positions on the opposite side of the Bekaa protecting Damascus are over-

looked.

In addition, Israel has total air superiority.

After crossing the Bekaa valley, the Beirut-Damascus road enters a narrow defile on its way to the Syrian capital. This will be immediately obvious to artillery and air attack. The present peace has an air of impermanence, which nobody expects to last for very long.

Australian public servants charged over fraud case

BY MICHAEL THOMPSON-NOEL IN SYDNEY

A SENIOR public servant was suspended in Perth yesterday and charged as the officer responsible for the alleged involvement of the Attorney-General's department in the spread of tax fraud.

Mr Peter Massie, the Perth deputy Crown Solicitor, together with Mr Sean O'Sullivan, his principal legal officer, and Mr Abraham Bercov, were suspended and charged. The charges will be heard by the chief officer of the attorney-general's department in Canberra.

Their suspensions are the first actions taken by the Government following last week's report by a Royal Commission inquiring into the affairs of the Australian Federated Ship and Painters and Dockers Union.

In addition to cataloguing the union's history of murder, mayhem and maimings, the report uncovered a decade of bureaucratic bungling which had led to the proliferation of tax-avoidance schemes throughout Australia.

Much of the blame has fallen on the Crown Solicitor's office and on the Attorney-General's department. The Royal Commission claimed that Mr

O'Sullivan deliberately stalled investigations of tax avoidance and alleged that Mr Bercov ran a "call girl racket" from the Crown Solicitor's office in Perth.

The opposition Australian Labour Party (ALP) criticised yesterday's action as inadequate. It said Mr Massie was "compared to a small fry" and demanded disciplinary proceedings higher up the hierarchy.

The Labour Party believes that the scandal has gravely embarrassed the government of Malcolm Fraser, Prime Minister, and neutralised any chance of his calling a snap general election to capitalise on the electioneering aspects of his August 17 budget.

The cabinet meets in Adelaide this morning to discuss retrospective legislation which it hopes will recoup lost taxes.

However, the federal executive of the Liberal Party indicated late last week that it objected in principle to retrospective laws.

Meanwhile, the advisory committee of commercial bank credit rescheduling has agreed to draw up a new agreement with the IMF allowing it to draw some \$4.5bn over the next three years. It is intended as bridging finance until this IMF credit becomes

Mexico promises oil as security for BIS credit

BY PETER MONTAGNON IN LONDON AND WILLIAM CHISLETT IN MEXICO CITY

MEXICO has pledged some of its 72bn barrels of oil and gas reserves as well as its holdings of International Monetary Fund Special Drawing Rights (SDRs) as security for the \$1.85bn emergency credit it is receiving from the central banks of leading industrial nations.

Details of the pledges were not disclosed, but it is understood that legal wrangling over the use of oil as a security for the credit was the main reason behind the delay in finalising the operation, which was only completed on Sunday.

The Labour Party believes that the scandal has gravely embarrassed the government of Malcolm Fraser, Prime Minister, and neutralised any chance of his calling a snap general election to capitalise on the electioneering aspects of his August 17 budget.

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repayments, amounting to some \$1.0bn, had met with a good response from the banking community generally.

But in a telex to other banks, the committee, whose number has grown to 14 through the inclusion of Swiss, Bank Corp and Deutsche Bank, urged banks that have not replied formally to the Mexican request to do so quickly.

The U.S. Federal Reserve is providing half the \$1.85bn credit from central banks with the remainder being made available by the Bank for International Settlements with the guarantee of other leading industrial countries.

Main participants are the Bank of Mexico with \$175m, West Germany, Canada and Japan with \$150m apiece and the UK with \$140m. The remainder is guaranteed by the central banks of Switzerland, France, the Netherlands, Sweden, Belgium and Italy.

The credit can be drawn in three instalments in line with Mexico's progress towards an agreement with the IMF allowing it to draw some \$4.5bn over the next three years. It is intended as bridging finance until this IMF credit becomes

Iraqis bomb Iranian oil terminal

By Our Foreign Staff
IRAQI AIRCRAFT bombed Iran's oil terminal on Kharg Island yesterday, setting it ablaze and inflicting heavy damage on oil installations, an Iraqi military spokesman said in Baghdad.

The spokesman said the operation was in retaliation for Iran's shelling of Iraqi cities.

Iran's oil exports have been more than halved following Iraq's earlier attacks on Kharg Island and its warnings to tankers to keep clear of the area, the Middle East Economic Survey (MEES) reported on Sunday.

The well-informed weekly, based in Nicosia, said Iran's total exports had dropped to about 900,000 barrels a day, compared with a peak of 2m b/d in July.

Damage to the Kharg facilities might have been relatively light, but the uncertainty created by the raids and Iraq's repeated warnings had frightened off many tankers and caused steep rises in freight and insurance rates, MEES said.

Total freight and insurance costs for Iranian crude could work out at something like \$3.25 to \$3.65 a barrel, compared with about 80 cents a barrel for other Gulf crudes.

MEES said an Iraqi rocket attack on August 18 put out of action a loading facility fairly close to Kharg Island.

This was capable of accommodating tankers of up to 200,000 tonnes. The attack caused damage which would take two or three weeks to repair.

Kim Fund adds from Caracas: Mexican oil exports will not exceed an average 1.4m b/d this year, Mexican officials have told the Venezuelan Government.

These assurances were made to Sr Humberto Calderon Berti, the Venezuelan Energy Minister, by his Mexican colleague, Sr Jose Oteiza.

Portugal to open currency market

PORUGAL'S first foreign exchange market will open in October according to Sr Walter Marques, the Secretary of State for the Treasury, writes Diana Smith.

The market, supervised by the Bank of Portugal, will be developed in four stages over the next three years—the period when Portugal will be making intensive preparations for EEC accession, and when its heavily-controlled monetary and currency system will have to be liberalised.

The new market will be for internal use only until June 1983.

Spanish poll date aims to thwart opponents

BY ROBERT GRAHAM, IN MADRID

THE

WORLD TRADE NEWS

JPD/col 150

Textile exporters face split

By BRUNO KHINDARIA IN GENEVA

THE EUROPEAN Economic Community's tough attitude towards developing countries' textile suppliers could prevent those countries from uniting sufficiently to squeeze more concessions from the EEC next month.

The Third World's main exporters of textiles and clothing began week-long talks in Geneva yesterday on the Multi-fibre Arrangement (MFA), concluded last December.

Several delegates emphasised the urgent need for developing countries to reach a united front before the final phase of bilateral negotiations with the EEC starting next month to reach separate agreements on exports to the Community under the MFA, the world textile agreement.

But about 14 countries have already signed such bilateral agreements, increasing the isolation of the large exporters - Hong Kong and South Korea.

Disension has appeared in the Third World party because

of suspicions that the large exporters might be using smaller exporters, which have fewer quarrels with the EEC, to strike deals favourable to themselves while neglecting the interests of others.

It is thought Hong Kong, South Korea and Singapore have started to reduce the size of their textiles and clothing industries as they move to sophisticated exports such as electronic goods to fuel the next step forward in their industrialisation.

In contrast, textiles and clothing remain key growing sectors in such countries as India and Brazil which may have preferred more flexible positions in negotiations with the Community, were it not for the desire to maintain Third World solidarity.

The main complaint by Hong Kong and South Korea against the EEC is that it is trying to increase the size of quota reductions. The main complaint of other exporters is against the Community's "anti-surge"

mechanism, which would prevent large jumps in exports from one year to the next. They also oppose the Community's insistence on placing import curbs without providing justification beforehand.

The Community has threatened to pull out of the MFA if Hong Kong and South Korea do not accept large cutbacks.

The Third World exporters said yesterday they are determined to force next November's ministerial conference of the General Agreement on Tariffs and Trade (GATT) to move against the MFA. They argue that the MFA has already lasted more than a decade, although it was a temporary derogation from GATT's free trade rules. To make matters worse, the Community is departing even from the MFA's already restrictive terms, they add.

Developing countries would also like the ministers to prevent MFA-style agreements from spreading to other industrial sectors such as steel.

Turkey moves on T-shirt war

By METIN MUNIR IN ANKARA

MR SERMET PASIN, the new Turkish Minister of State for external economic relations, said he was planning a visit to Brussels at the end of September to resolve the "T-shirt war" between Turkey and the EEC.

"It could not tolerate the ban placed on the import of Turkish T-shirts and similar knitted wares by the EEC."

The ban, which the Com-

munity said was imposed to curb the flood of T-shirts, was introduced at the end of last month and will remain in effect until October 15. Turkish exporters claim their losses could be as much as \$300m (£175m) and the damage to the clothing industry, the country's fastest growing, could be incalculable.

"I believe we can reach some sort of an agreement," said Mr Pasin. "However, if the ban continues we will have to retaliate."

Earlier this month the Community lifted tariffs on Turkish cotton yarn and Turkey period," said Mr Pasin.

reciprocated on EEC steel exports after agreement was reached for Ankara to limit its yarn exports to the EEC to 75,000 tons per annum.

Mr Pasin believed one of the causes of the problems between Turkey and the EEC lay in the fact that since September 1980 Turkey has been under military rule. In Brussels he would explain that the generals intend to fulfil their promise to restore parliamentary rule by 1984.

"My purpose is to elevate Turkish-EEC relations to the optimum in this transition period," said Mr Pasin.

Martinair postpones Airbus plan

Martinair, the Dutch charter airline company, said it has postponed for two years the purchase of a third Airbus A-310 from Airbus Industrie in France, previously scheduled for 1985, AP-DJ reports from Amsterdam.

The postponement has been made in the light of persisting stagnation in the world airline industry, the company said.

Delivery of the first two aircrafts will go ahead on schedule during 1984 said Martinair.

The company added it has ordered a second U.S. DC-9 type 32 aircraft from McDonnell Douglas for delivery in April 1983.

Pan Am shelves flights

Pan American World Airways will suspend flights to Bangkok and Karachi on October 31 as part of a worldwide route reorganisation to return the airline to profitability, a Pan Am official said yesterday, AP reports from Bangkok.

The suspension was temporary, he said, with Pan Am officials hoping to resume flights to Bangkok when the airline returned to profitability.

ICL wins £2m order

About £2m-worth of British-made computer equipment is being bought by the Abu Dhabi national oil company (ADNOC), one of the world's leading oil producers.

The order, signed with London-based International Computers Limited, includes an ICL 2966 computer, destined for the Abu Dhabi Marine Operating Company.

The first of its kind to be

installed in the Gulf, the 2966

is due to be operational by

the end of the year.

Romania BAC aircraft unveiled

THE FIRST BAC 1-11 aircraft assembled in Romania under licence from the British Aerospace Corporation (BAC) was unveiled on Friday, Reuter reports from Varna.

A contract for assembling

22 of the planes with British-supplied parts was signed in 1978.

After production ends,

Romania will make the aircraft on its own with engines supplied by the Rolls-Royce company.

Guy de Jonquieres reports on leading computer suppliers

Data processing revenues fall by 2%

EUROPE'S TOP COMPUTER EXPORTERS

| Rank | Rank Company | 1980 | Parent Company | 1981 | European Dp rev (in \$m) | % change | European Dp rev FY '80-'81 (in accounting currencies) | % change |
|------|--------------------------|------|----------------|-------|--------------------------|----------|---|----------|
| | | Rank | HQ | 1981 | 1980 | 1981 | 1980 | 1981 |
| 1 | IBM | 1 | U.S. | 8,846 | — 6 | — 6 | — 6 | — 6 |
| 2 | CII-Honeywell Bull | 3 | France | 1,311 | + 9 | + 17 | + 17 | + 17 |
| 3 | Siemens | 2 | W. Germany | 1,296 | + 15 | + 4 | + 4 | + 4 |
| 4 | Digital Equipment | 8 | U.S. | 1,162 | + 38 | + 28 | + 28 | + 28 |
| 5 | ICL | 4 | UK | 1,067 | + 11 | + 5 | + 5 | + 5 |
| 6 | Olivetti | 5 | Italy | 1,006 | + 15 | + 13 | + 13 | + 13 |
| 7 | Sperry Univac | 6 | U.S. | 780 | + 13 | + 11 | + 11 | + 11 |
| 8 | Control Data | 9 | U.S. | 765 | + 0.1 | + 0.1 | + 0.1 | + 0.1 |
| 9 | Philips | n/a | Netherlands | 750 | + 1 | + 1 | + 1 | + 1 |
| 10 | Unisys | 10 | U.S. | 742 | + 10 | + 10 | + 10 | + 10 |
| 11 | NCR | 7 | U.S. | 678 | + 4 | + 21 | + 21 | + 21 |
| 12 | Nixdorf | 11 | W. Germany | 604 | + 8 | + 6 | + 6 | + 6 |
| 13 | Hewlett-Packard | 12 | U.S. | 556 | + 13 | + 30 | + 30 | + 30 |
| 14 | CIT Alcatel | 14 | France | 497 | + 1 | + 1 | + 1 | + 1 |
| 15 | Honeywell Infor. Systems | 15 | U.S. | 460 | + 7 | + 19 | + 19 | + 19 |
| 16 | Thomson-CSF | 13 | France | 233 | + 67 | + 47 | + 47 | + 47 |
| 17 | ITT | 24 | U.S. | 219 | + 14 | + 14 | + 14 | + 14 |
| 18 | Rank Xerox | 18 | UK | 213 | + 39 | + 29 | + 29 | + 29 |
| 19 | Ferranti | 20 | W. Germany | 207 | + 5 | + 5 | + 5 | + 5 |
| 20 | Telebit | 19 | Sweden | 203 | + 5 | + 25 | + 25 | + 25 |
| 21 | Datatab | 17 | UK | 203 | + 5 | + 8 | + 8 | + 8 |
| 22 | Plessey | 16 | U.S. | 201 | + 34 | + 34 | + 34 | + 34 |
| 23 | Wang | n/a | U.S. | 171 | + 0.6 | + 0.6 | + 0.6 | + 0.6 |
| 24 | Data General | 22 | U.S. | 158 | + 10 | + 10 | + 10 | + 10 |
| 25 | Memorex | 21 | U.S. | | | | | |

n/a Not applicable. * Not available. † Estimated.

Source: Datamation/Logica

the top 10 headed by Olivetti, with a 32 per cent revenue growth.

No Japanese company qualifies for inclusion among the top 25 largest computer companies operating in Western Europe. At present Japanese companies selling large computers in Europe, notably Fujitsu and Hitachi, rely on distribution agreements with companies including ICL, Siemens, Olivetti and BASF.

But measured in national currencies in which individual companies report, the order changed considerably. Six European companies featured among the top 25 is Philips of the Netherlands, for which revenue figures were not available for last year's survey. It occupies ninth place.

SHIPPING REPORT

Kharg Island bombing hits tanker market

By HAZEL DUFFY

THE BOMBING raid by Iraqi forces on the Kharg Island terminal produced a flurry of activity in the tanker market last week. Brokers reported a number of tankers being fixed out of Indonesia to the Bahamas at Worldscale 30.

But the big increase in cargo war risk rates at the end of last week was expected to act as a deterrent to owners lifting cheaper Iranian crude.

E. A. Gibson reported that a more accurate picture of the tanker market was to be obtained from the fact that

U.S. cargo business to advance further this week. No great improvement in demand is reported from the Indonesian and West African markets, with a 130,000-tonner being fixed out of Indonesia to the Bahamas at Worldscale 30.

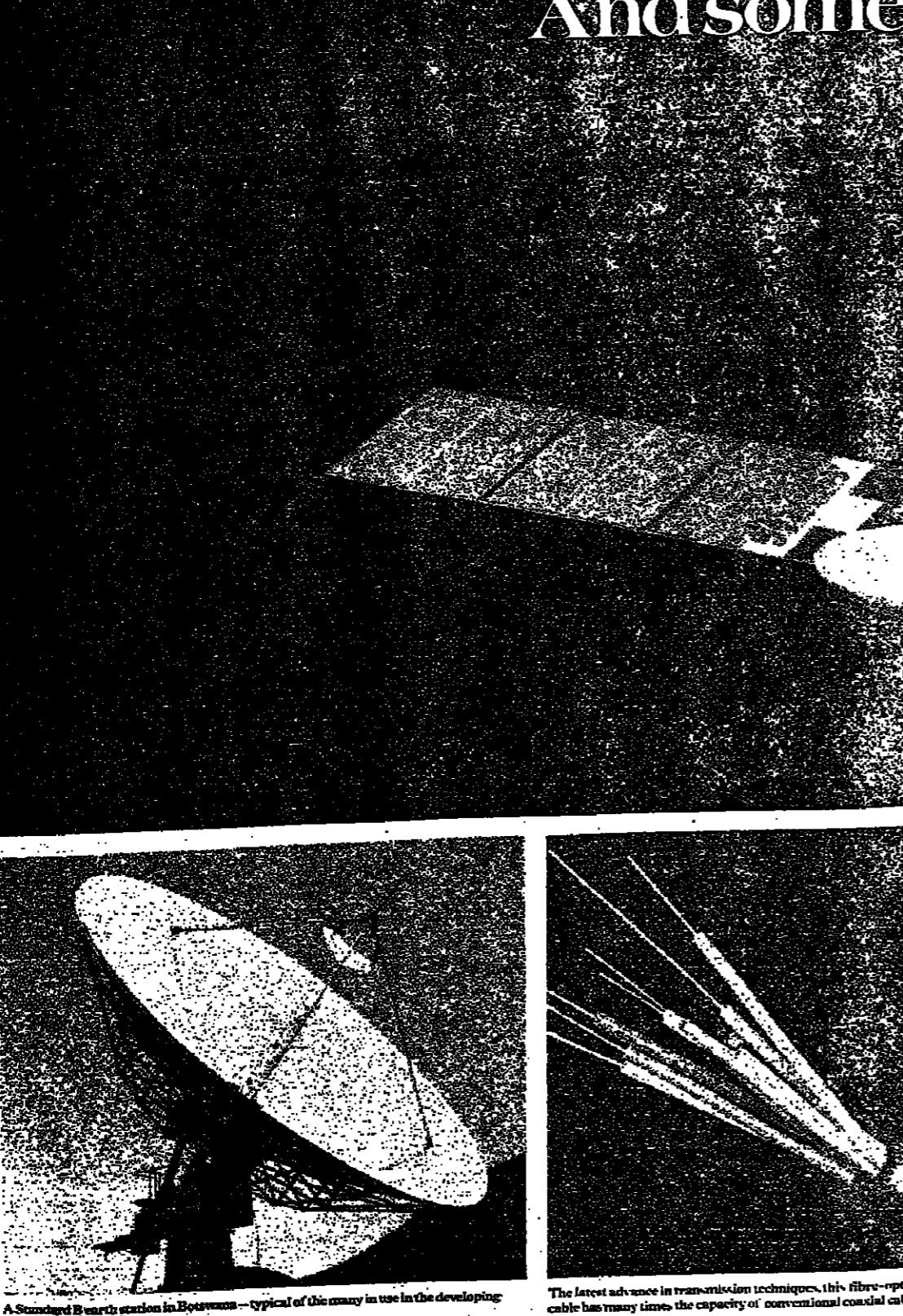
Dry cargo fixtures in the past week are reported to have been at "depressing" rates, although one broker says there is just a hint that the Gulf/Continent rate, for instance, may have bottomed out as several prominent grain charterers are in the market for consecutive Gulf/Continent.

H. P. Drewry says in its latest edition of Shipping Statistics and Economics that there is now a strong suggestion that dry cargo rates have fallen to a level where the decline must bottom out.

This is because they seem to have reached the point where owners would have to consider the laying up of tonnage as a less costly alternative to trading.

It is thought charterers are unlikely to be able to force rates much lower without significant losses to the active fleet.

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UK NEWS

BL and Vauxhall-Opel to cut discount to dealers

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

BL AND Vauxhall-Opel, the General Motors subsidiary, are to follow Ford's example by cutting the discount they give their dealers on new cars.

Ford cut its main dealer margins from 18.5 per cent to 17 per cent in April as part of its heavily promoted "product and price realignment" programme.

Neither of its main UK-based competitors followed, but BL warned at a dealer conference in May that it might be forced to.

Austin-Rover, BL's volume car offshoot, and Vauxhall-Opel will make product changes next month and will take the chance to reduce dealer margins on some models.

The reductions are likely to be spread throughout the Austin-Rover and Vauxhall-Opel ranges early next year.

The UK-based manufacturers are attempting to bring nominal

car prices in Britain closer to those listed on the Continent. They have held their prices steady for much longer than would be expected with inflation at about 7 per cent annually.

They have begun to squeeze their component suppliers, urging them to cut costs and reduce prices. And dealers are being told they must bear part of the load.

In the past manufacturers have restricted cuts in dealer margins to low-cost models. Austin-Rover gives only 14 per cent on the most inexpensive Metro, 17½ on the top-priced ones, and 18.4 per cent on other Austin-Rover cars.

Once Ford led the way with across-the-board cuts in its margins the other manufacturers were bound to follow, given Ford's influence on the UK market with its 30 per cent plus share.

South-East 'optimistic'

BY DAVID CHURCHILL

AN OPTIMISTIC survey of business prospects in London and the South-East is published today by the London Chamber of Commerce and Industry.

The Chamber's 22nd survey of manufacturing industry in the region suggests some "guarded optimism" about economic recovery, especially among small and medium-sized companies.

About 40 per cent of the 367 companies questioned reported increased orders. Only 22 per cent indicated fall.

Sectors such as electrical engineering, chemicals and metals, instrument engineering, and rubber and plastics all showed increases in domestic

demand of 40 to 55 per cent. Production rose in 29 per cent of the companies surveyed but fell in 14 per cent.

The survey shows a slight fall in future confidence. About 38 per cent of the companies surveyed said they were more optimistic about the next few months, just under 25 per cent said they were less optimistic.

In May about 43 per cent were optimistic, and 17.8 per cent pessimistic.

The chamber says the figures overall suggest that the performance of manufacturing companies in the region has been relatively stable and therefore modestly encouraging.

Esbjerg ferry service to start

By Hazel Duffy, Transport Correspondent

A TWICE-WEEKLY roll-on, roll-off service from Great Yarmouth to Esbjerg in Denmark will start in October, offering a 60 trailer vessel.

Portlink Ferries, based in Yarmouth, has been formed to run the new service by a consortium from the UK, Holland, and Denmark. It will offer a quay-to-quay service but will not become involved more extensively in freight movement.

The major roll-on, roll-off ferry operator between the UK and Denmark is DFDS, which operates out of Harwich.

More money is being spent on new handling equipment for Felixstowe and on expanding the storage area for containers. A second Freightliner terminal to handle containers by rail is also being built for about £3.5m, with a Government grant covering 40 per cent.

But the main expansion push

is over for the moment. The port is now consolidating, says Mr. Parker. "We want to see a steady return on the investment and then consider expansion. We will expand if demand is there."

He believes that there is still growth in containers. "True, there are too many container

Dealers will have difficulty putting up objections. In the current scramble for sales they have been giving discounts — often substantial — to any new customer who cares to ask.

A spokesman for the Motor Agents Association said at the weekend: "Naturally we are concerned about any erosion of the dealers' margins. But I fear that because of the tough market, the dealers have been giving a lot away already."

With its east coast location, near to the Continent, its peaceful labour relations in an industry not renowned for harmony, and its long experience in the container business, Felixstowe has clear advantages over some of its rivals.

Being in the private sector, notes Mr. Geoffrey Parker, the port's managing director, also means it can be more flexible than those owned by the state or local authorities — "we can probably react a little quicker."

This year, Felixstowe is benefiting from the £32m expansion which was completed last summer and added two new container terminals to the port — Dooley and Walton, the latter operated by a subsidiary of the C. Y. Tung Group of Hong Kong.

More money is being spent on new handling equipment for Felixstowe and on expanding the storage area for containers. A second Freightliner terminal to handle containers by rail is also being built for about £3.5m, with a Government grant covering 40 per cent.

A helping hand might, ironically, come from the C. Y. Tung Group which also plans to invest several million pounds in a venture with Southampton to re-equip two of its container berths. Mr. Parker reckons this and the Tung investment in Walton will be compatible — "I don't think it will affect operations in Felixstowe."

He says Felixstowe did not

Andrew Fisher looks at a port where profits have soared and £32m has been spent on expansion

PORTS IN BRITAIN

Felixstowe



Felixstowe — port of the £32m development. Roger Taylor

benefit particularly from the labour unrest at Southampton, though it may have received some cargoes diverted from other vessels. "We were busy

anyhow."

This year, with the new terminals going for a full year, Felixstowe's profits are likely to rise again. The port recently received a filling with the Hellenic Lines of Greece to operate entirely out of the Suffolk port and drop in on the long-standing link with London.

Felixstowe's nearness to the Continent means it is ideally situated for shipping companies which want to run so-called feeder services to and from continental ports like Rotterdam where their deep-sea operations may be based.

But, says Mr. Parker, "we are getting more and more into the big league." He estimates that about 55 per cent of

giant cranes on large rubber tyne wheels which number up and down the open blocks of stacked boxes lifting each one off the pile and on to a waiting lorry.

These are replacing the straddle carriers, which look like big yellow travelling bedsteads and used to move more freely about the port area. Felixstowe is spending about £8m on new container cranes and land resurfacing for container storage, as well as multi-mounted cranes for the Freightliner terminal.

The port also has a thriving passenger business last year carrying 2,070,000 people on services to Belgium and Sweden against 904,500 in 1980. Apart from Townsend Thoreson, with services to Zeebrugge, Tor Line operates to Gothenburg. Roll-on/roll-off freight is also important: traffic fell slightly in 1981 from 2,55m tonnes to 2,52m.

Although the port suffered from an overtime ban this year during pay talks, which ended with an 8 per cent increase and a profit-sharing scheme, its industrial relations are fairly harmonious. One reason, as Mr. Parker sees it, is that only one union, the Transport and General Workers, operates there.

Felixstowe's 1,000 dockers are not in the national dock labour scheme, which effectively guarantees dockers jobs for life, though thousands in other ports have taken advantage of generous redundancy terms. Mr. Parker sees no reason why they should be in the scheme, though some would like to. "We have an efficient working force. There's no reason why they shouldn't be in jobs till they are grey-haired old men."

Counting the cost of dying

BY ANTHONY MORETON, REGIONAL AFFAIRS EDITOR

THE Common Market regional affairs directorate returns to Brussels this week to pick up the pieces of a proposal, rejected in the summer, which would have concentrated regional aid in the less prosperous member countries.

The proposals were to reallocate the quota section of the European Regional Development Fund so that only the four "poor" members — Italy, Ireland, Greece and Britain — would have benefited. They failed largely because of opposition by France, supported by Belgium.

The Commission proposed that to maximise the benefit from regional aid fewer areas would be helped. In Britain this meant Yorkshire and Humberside and Devon and Cornwall, both containing assisted areas, would have been excluded from European regional aid.

The Commission's directorate dealing with regional affairs meets again on September 9. It is unlikely that any new policy will emerge for at least a year.

When it does the likelihood is that at least token quotas will be available for every country, which will disappoint Britain since the UK stood to gain from the revised procedure.

The weakness of the Common Market proposals was that they were based on unemployment levels existing in 1977.

Quota section aid should be reserved for those regions suffering from serious structural problems as defined by gross domestic product per head and the rate of long-term unemployment.

Since 1977 both regions have suffered heavily and seen their unemployment figures rise sharply.

At the September 9 meeting the Commission is likely to reaffirm its intention to achieve a substantial concentration of regional aid in the less prosperous areas.

THE COST of dying in Britain is as unpredictable as its timing, according to the Odd Fellows Friendly Society.

Wide variations between between regions showed up in its annual survey of funeral costs. The price of a "cheap" funeral with cremation ranged from £235 in Exeter to £491 in London. Wales and the West country offered the most reasonable prices and London the highest.

Most prices were about £400, except in London. The addition of a headstone or plaque put the price up considerably.

Varied prices

Prices for individual services varied widely. Coffin prices ranged from £35 to £289. One Scottish undertaker, who was asked the price of his cheapest coffin, replied: "£80 for a pauper's coffin."

The society says savings can be made by obtaining estimates from several funeral directors well before there is any urgent need.

Shopping around is not easy, however. Many funeral directors refused to give prices over the telephone. Many of those who did would not break costs down.

The survey says: "Most people who are arranging a funeral will be reluctant to go into detailed costings and will accept an overall figure based on the cost of the coffin."

The Exeter funeral the cheapest detailed costing the survey could find, included a chapel of rest, £15, coffin, £85, hearse and four bearers, £26; limousine for mourners, £10; professional services, £60; cremation fees, £50; two doctors' certificates, £51; minister's fee and expenses, £17. Total: £259.

Receivers consider offers for Carron Ironworks

FINANCIAL TIMES REPORTER

RECEIVERS FOR Carron Ironworks, Falkirk, Scotland, are examining the responses to their invitation for offers against a deadline which expired at 5pm yesterday. Their reactions to the offers could be made public this week after they have analysed the situation in great detail.

The workers whose more than 600 jobs are threatened by closure will have to wait several days, therefore, before discovering whether the 223-year-old company will be pulled from the brink.

Representatives from a French company were shown around the plant yesterday, hours before the deadline was due to expire.

The Scottish Development Agency, which has been holding talks with a management consortium, said: "We have spoken to a number of parties, some as late as Friday, and these include a number of companies and a number of consortia."

A consortium of eight managers at the plant had been trying to raise sufficient cash to make an offer for part of the

works, which would be attractive to the receiver. It is believed they are interested in the stainless-steel sinks and pressed-steel baths divisions. It was not clear whether the consortium made a bid yesterday.

Mr. Harry Donaldson, a shop steward, said he hoped the receiver would give some indication of the future of the ironworks later this week. "The workforce will start to get frustrated if we don't hear what's happening. Our future depends on it."

Local representatives Mr. Harry Ewing, Labour MP for Stirlingshire, and Mr. Martin O'Neill, Labour MP for Clackmannan and East Stirlingshire, are hopeful the company can be saved and are waiting anxiously for news.

Mr. O'Neill said: "Hopefully somebody will make an attractive offer which will secure as much employment as possible."

Since the receivers were called in 122 jobs have been axed, reducing the total workforce to 615.

World steel-making falls to 30.8m tonnes in July

BY ALAN PIKE, INDUSTRIAL CORRESPONDENT

WORLD STEEL production last month dropped by 1.83 per cent compared with July 1981, to 30.804,000 tonnes, according to International Iron and Steel Institute-complied figures.

Total production for the first seven months of this year stood at 341,556,000 tonnes, a drop of 10.4 per cent on the corresponding period of 1981.

The biggest change in the July 1981 to July 1982 period was in the U.S. There produc-

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| HIGHLIGHTS FROM THE BALANCE SHEET AS AT DECEMBER 31, 1981 | |
|---|-----------------|
| ASSETS | LIABILITIES |
| Cash | 570.7 |
| Bills | 238.0 |
| Due from banks | 23,917.5 |
| Treasury bills and other securities | 4,361.6 |
| Due from customers | 41,855.6 |
| Loans on a trust basis at third-party risk | 9,668.0 |
| Trade investment | 429.2 |
| Land and buildings | 463.7 |
| Other assets | 1,491.6 |
| Assets of Landesbausparkasse (Building and Loan Association) | 7,842.8 |
| TOTAL | 90,838.7 |
| | |
| | |
| Liabilities of Landesbausparkasse (Building and Loan Association) | 7,579.8 |
| TOTAL | 90,838.7 |

UK NEWS

JULY 1982

Food industry's profits lowest for two years

By DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

A SHARP fall in the profitability of UK food manufacturers is revealed in the latest survey of the industry, published by the Food and Drink Industries Council.

The survey, prepared for the council by the Institute of Grocery Distribution, shows that in the first three months of this year food manufacturers' profit margins fell to their lowest level for two years.

Moreover, the companies' profit margins in the first quarter of this year were some 44 per cent down on those in the third quarter of last year.

The survey of major food companies found that pre-tax profits as a percentage of sales in the first quarter of this year were 3.21 per cent compared with 4.45 per cent in the first quarter of last year. At its peak in the third quarter, the margin was 5.73 per cent.

This year's first-quarter figures are the lowest since the first quarter of 1980, when the profit margin was 2.22 per cent. On a seasonally adjusted basis, the profit margin in the first quarter of this year was 3.83 per cent.

The council also puts some of

the blame for the industry's low profitability on "pressure by retailers. Although the volume of retail sales index for food retailers in the six months to March 1982, remained steady, it points out, this was sustained only by low increases in food prices.

For example, during that period the Grocer price index for processed foods rose by only 3.7 per cent.

The decline in food companies' profitability has come as a disappointment to the industry after the improvement in the first nine months of last year. But the slump began in the November-December period, when the figures revealed the worst fourth-quarter result since 1978.

"We are seeing the re-emergence of a situation which became acute during much of the 1970s," says the council. "Difficulties in obtaining satisfactory sales prices are reducing profit levels just at a time when existing working capital is required.

"In turn, borrowings have increased while interest rates are still high, resulting in further pressure on profit levels."

The council adds.

Sails trimmed to weather storm

ANYONE who has ever messaged about in boats knows that the name Hood is synonymous with quality. Hood is one of the best sailmakers. "The best," according to Bryan Axford.

But he is biased. He is joint managing director of Hood Sailmakers, of Lymington, the British arm of a company started in the late 1940s in New England by Ted Hood.

Hood mainly makes sails for the biggest and best boats, but the company's overwhelming association with the top end of the market perturbs Axford. "We make sails for middle boats and want people to know what we can make for them as well," he says.

"We may be the Rolls-Royce of sailmakers but we will talk to anyone about their problems and we make sails down to racing dinghies. This is a very competitive business and we are very competitive in it."

Making sails is a highly specialised business. Ted Hood started in America where he saw a gap in the market. Later, because of frustration with his suppliers and the quality of the Egyptian cotton they were offering him, he began to weave his own cloth.

The company arrived in Britain in 1967 and Axford joined a couple of years later. The con-



Terry Kirk
Mr Bryan Axford, joint managing director of Hood Sails, on his yacht.

are proud of, but it is a profit, and by the standards of the rest of the industry it's not bad."

That profit has been made on a turnover of about £1.5m, of which 40 per cent comes from overseas. But turnover has been static for the past two or three years, which means that in real terms the company has slipped.

In normal times the U.S. parent expects to receive a royalty from Lymington. But the Americans have gone easy on royalties in the recession to keep their British arm in the black.

Because so much of the company's work is for the top end of the market Hood Sailmakers has been badly hit by the depression on the stock market. "Our customers tend to be particularly affected by the market, especially when many of the big boats are company owned."

Both companies and rich individuals have stopped building new boats and so we have been forced to rely increasingly on replacement work.

"We thought we might be pulling out of the recession this year. Perhaps we were too much influenced by what we read in the papers. But this year has been, if anything, even more difficult than 1981."

This announcement appears as a matter of record only.

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Call for better measure of drug value

By David Fishlock, Science Editor

A call for more refined methods of measuring the impact of modern drug therapy on health has been made by the Office of Health Economics, think-tank of the British pharmaceutical industry.

It believes "health indices" may have a part to play in the assessment of medicines when they are first used on patients.

In a report just published the OHE finds that medicines developed over the last 30 years "have made a significant impact in improving well-being in subjective terms."

It claims its study is one of the "few systematic attempts to measure the benefits" of treatment by drugs.

There is growing concern about the cost of medical care, and one way of justifying the rising expenditure is to demonstrate more clearly the benefits, it says.

One yardstick it uses for "quality of life" is the need to be in hospital for treatment. Between 1959 and 1979 the number of beds in British hospitals fell from 549,000 to 456,000.

The average length of stay in hospital in England fell from 30.1 days in 1965 to 20.9 days in 1977.

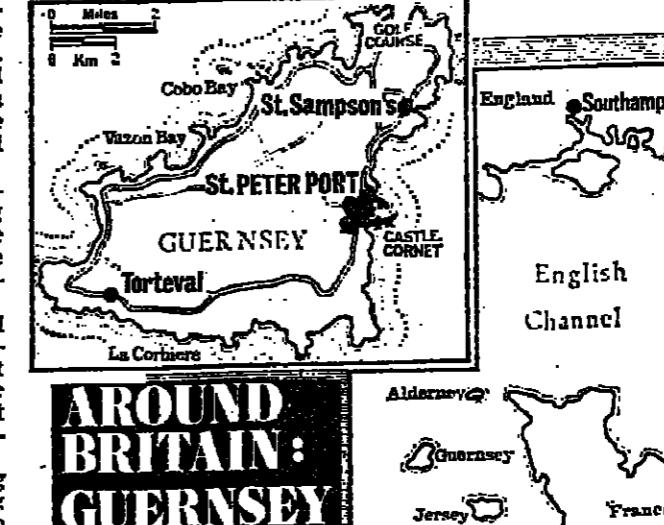
The biggest single factor was the decline in beds — 30,000 in 1952 to 625 in 1979 — for tuberculosis.

Another big reduction was made in beds for psychiatric patients — 154,000 in 1954 to 78,000 in 1979 — following the introduction of the drug chlorpromazine.

OHE Briefing 19 — Medicines and the Quality of Life, Office of Health Economics, 12 Whitehall, London SW1A 2DY, 50p.

No substitute for flowers

Willa Owen reports on plans for a broader-based island economy



AROUND BRITAIN: GUERNSEY

Industry officials, however, believe Guernsey has more immediately appealing advantages.

These include 20 per cent maximum tax rate on business profits and personal salaries.

A function of the new department is to smooth the way so that a business moving to the island can do so with minimum frustration and loss of time.

Meanwhile 42 businesses have formed a self-help organisation, the Guernsey Exporters' Group. The association is a framework for the pooling of ideas and of experience in overseas markets other than the UK. It provides a corporate voice for the island's exporters.

Guernsey's chamber of commerce recently gave identity to the manufacturing sector by launching a Made in Guernsey origin-mark, designed to show the world the island is a producer of goods as well as of tomatoes and holidays.

The chamber would like to see financial support from Guernsey's government, in grants or similar inducements for industrial investment. Department of Commerce and

Electronics is considered a particularly suitable industry for Guernsey because it exports at high value-added products — equivalent to a Rover car," one official put it.

Mr Bruce Riley, the island's commercial relations officer, said light industry was a more efficient land-use than horticulture, which employed fewer people per acre.

The drive to encourage more companies, however, was not designed as a substitute for horticulture, he emphasised. "To stay viable Guernsey needs to keep its horticultural industry and to develop manufacturing."

BAe wins £3m Scots deal for Jetstreams

By Michael Donne,
Aerospace Correspondent

THE FIRST British order for the British Aerospace Jetstream 31 twin turbo-prop small airliner has been placed by a Scottish company, it was announced yesterday.

In a deal totalling £3m, Peregrine Air Service, an Aberdeen-based North Sea oil air charter company, is to buy one aircraft and lease it to a second.

The first will be delivered in December and delivery of the second is scheduled for next February. Both will be the 18-seat commuter version.

British Aerospace has now made seven Jetstream 31 sales, with a further five options and an additional five reservations. Until yesterday, all the sales were to the U.S., West Germany and Norway.

The Jetstream 31 was originally designed by the former Handley Page aircraft company in 1985. But full production at Prestwick, Ayrshire, did not begin until last year. It won its certificate of airworthiness last June.

Output at Prestwick is being built up to at least 25 aircraft a year by 1984.

Mr Brian Thomas, managing director at Prestwick, described the deal as "particularly gratifying" and said: "It is very exciting when a Scottish aircraft manufacturer can look forward to a Scottish operator flying its aircraft through the support of Scottish financial institutions."

British Aerospace had now sold all the Jetstreams available for delivery this year and had made "reasonable" inroads into producing those available for delivery next year, he added.

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DIDIER-WERKE AG

WIESBADEN, GERMANY

(Refractories and Engineering Services)

The Annual General Meeting of Didier-Werke AG was held in Wiesbaden on 16 July 1982 and the following are extracts from the speech of the Chairman of the Board of Management, Dr Martin Bieneck, and from the report presented by the Board.

Dr Bieneck

Dr Bieneck began by pointing out that, in spite of all the difficulties encountered in 1981, the Didier Group had managed to maintain the success achieved in previous years. This had been done in the face of a continuing crisis in the steel industry and an unprecedented decline in employment in the construction industry. He went on to describe in detail the strategic steps taken in the last ten years, since the start of the oil crisis, to counter successfully the structural changes that had occurred as a result.

Talking about economic and social policies, Dr Bieneck complained that annual wage increases still failed to use progress in productivity as a yardstick. Moreover, personal initiative and international competitiveness had been and remained affected by the continuing policy of redistribution. In view of a level of youth unemployment that gave grounds for concern Didier had increased the number of training places it made available.

Didier also took issue with allegations of a refusal by industry to invest, pointing to the decline in profits and the shaken confidence resulting from uncertainty as to the future. Didier, however, in pursuit of its strategy, had increased investment by some 20% to DM 25m in 1981. The substantial investment programme that had been started would only become fully effective during the current year, when it would rise to more than DM 30m.

As for developments during the current year, Dr Bieneck felt there was little prospect of a lasting recovery in the home demand for standard products. All the same orders had kept up with the previous year up to now and capacity utilisation in the German plants had risen slightly, largely because of the worldwide business in high-grade products. Exports were currently taking 5% of total output.

Although he expected output to decline at home the situation of the foreign plants was more stable, and since the Group was moving in new directions both turnover and earnings were expected to be in line with the previous year.

The following are details of the Annual Report:

Refractories

The difficult market situation also posed special problems for Didier. At home, capacity utilisation remained most unsatisfactory at the beginning of the year under review, and there

INSURANCE

Plugging tax loopholes in life deals

A comprehensive new system is needed, writes Eric Short

THE Inland Revenue urgently needs to get together with all sections of the life assurance industry to sort out the system of taxation for contracts, particularly that related to lump sum investments.

The controversy over second-hand bonds has highlighted the confusion and has shown that the system of legislation and "gentlemen's agreements" does not work.

Life assurance has a variety of tax concessions applicable to the life funds and to the individual life contracts when they are cashed in. The present system offers the tax-avoidance specialist a fruitful field. An artificial combination of life contracts can minimise or even eliminate tax liability for the investor in a manner never intended by the Revenue.

The traditional life companies which are members of the Life Offices Association (LOA) or the Associated Scottish Life Offices (ASLO), have an "unwritten 'gentleman's agreement' with the Revenue not to abuse these tax concessions or to get involved in the

tax-avoidance business through artificial arrangements.

It is difficult to draw an exact line on tax avoidance but the rule of thumb seems to be that if the investor himself can put together the separate contracts then it is acceptable.

The LOA and ASLO officials have regular informal meetings with the Revenue and each knows the other's views. Some non-member life companies also abide by this agreement, but most non-members refuse to be tied down by it. They are very much involved in designing tax-efficient schemes and are not worried in the least by the concept of artificiality, as long as the scheme complies with current legislation.

The past decade has seen the "entrepreneurial" life companies produce one tax-avoidance scheme after another. These schemes flourish for a while and sell well before the Revenue gets around to taking

tions have no right to interfere with the marketing and to dictate to the Revenue over tax legislation.

These views, which have split the life assurance industry, have been highlighted by the second-hand bond controversy. This was a clever device to minimise tax on a life bond through a highly artificial sales procedure. The association companies saw bond business increasingly go to the non-member companies over the past couple of years while the Revenue did nothing.

The Revenue seems to take an inordinately long time first to discover that such schemes exist, then to ascertain that they are sufficiently widespread to seek the necessary parliamentary time to stop the loophole.

Often the Revenue privately admits that it was unaware of the existence of a tax-avoidance scheme until its officials heard about it through the media.

So the LOA and ASLO take upon themselves the role of informing the Revenue that such schemes are being marketed and of asking for action to be taken as soon as possible. This infuriates the non-member life companies who take the line that the association

APPOINTMENTS

Senior post at Vickers

Mr Rob Ferguson, a founder member of the Association of Hydraulic Equipment Manufacturers, has been appointed managing director of VICKERS FLUID POWER at South Marston, Swindon. He joined Vickers hydraulics division in 1977 as director of sales and marketing, before becoming assistant manag-

ing director of a re-formed Vickers fluid power division.

Brigadier Anne Field has been appointed from September 1 as a regional director of the Greater London regional board of LLOYDS BANK. Brigadier Field joined the LOA in 1947 and retired as director of the Women's Royal Army Corp.

Following the acquisition by Charter Consolidated of 65.24 per cent of South Crofty, the following appointments have been made to SOUTH CROFTY'S board: Mr A. J. W. Owston (now also chairman of South Crofty) an executive director of Charter and head of its mining division; Mr J. V. Cleasby, an alternate director of Charter, consulting engineer and head of its technical department; Mr J. A. Pool, a manager of Charter and head of its group financial planning department; and Mr G. Gardner, manager-mining administration in Charter's mining division.

Mr Donald Davidson has been appointed managing director of ITEL SOFTWARE SYSTEMS. Mr Davidson has responsibilities throughout Europe and is currently launching the company in the UK.

The Education Secretary has appointed Lord Cranbrook, Professor Ronald Edwards and Professor John Simpson as new members of the NATURAL ENVIRONMENT RESEARCH COUNCIL.

Users of refractory products are under increased pressure everywhere to increase their profitability. This challenge at the same time creates new opportunities for Didier which the company will do everything it can to exploit.

With the increasingly international character of production and distribution the refractories as well as the Didier Engineering business have changed character. Didier, as an enterprise operating worldwide, has become more independent of developments in individual markets.

1982 again poses special problems for the German economy, but Didier's move in new directions should enable the Group successfully to maintain its position in the new business year.

Profit and Dividend

Profit for the year, including the balance brought forward of DM 121,030.02, amounted to DM 12,632,813.18 which, after an appropriation of DM 3,800.00 to the free reserve, produced a total of DM 9,332,813.18 available for distribution.

It is accordingly proposed to distribute dividend of DM 5.50 in respect of each DM 50 nominal share, a rate of 11% and equivalent to DM 9,032.100 on the share capital ranking for profit of DM 92,110.00, and to carry forward the resulting balance of DM 100,713.18.

The report, the accounts, and the proposals put forward by the Board were adopted.

Board of Management (Vorstand)

Dipl.-Kfm. Dr. jur. Martin Bieneck, Chairman; Dietrich von Knoop, Vice-Chairman (as from 1 May 1982); Dipl.-Ing. Ernst Maher (up to 31 August 1981); Dr.-Ing. Gerhard Reinhardt; Dr.-Ing. Hans Stollenwerk.

Chief Executives (Direktoren mit Generalvollmacht)

Werner Gottwald, Dr.-Ing. Peter Jeschke (as from 1 June 1982); Dipl.-Ing. Dieter Sack (as from 1 June 1982).

Engineering Services

Business in refractory engineering services remained mainly concerned with the erection of new hot blast stoves and orders for major repairs.

The filter engineering division

once again achieved satisfactory results and made further pro-

gress in the field of environmental protection.

In the field of acid-resistant installations results were satisfactory, although because of a shift in lead times, the previous year's figures were not reached. There was also a slight fall in incoming orders.

The Dinova plant faced a very difficult market and yet managed to improve its market share because of cuts in cost and a flexible pricing policy.

Personnel

The company's labour force fell from 4,767 to 4,427 during the year, with foreign workers accounting for around 35% of the total of blue-collar workers employed by the parent company.

Prospects

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the total of blue-collar workers

employed by the parent company.

Refractories

The Spanish Didier refractory plant also fell only slightly short of the encouraging figure

reached in the previous year.

The two American plants, on the

other hand did not manage to

maintain the business of the

previous year because of the

recession in the United States,

but the advantage of local produc-

tion was clearly shown in

Canada, where the Didier plant

again managed to improve its

capacity utilisation in the face

of adverse market conditions.

Capacity utilisation abroad

remained better than at home.

The French plants succeeded in

raising their employment even

beyond the very high level

reached in the previous year.

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UK NEWS - LABOUR

Congress faces three options on split with NEDC

BY JOHN LLOYD, LABOUR EDITOR

BATTLE LINES for the major debates at TUC Congress next week have been drawn over the past week in a series of private meetings between union leaders and TUC officials.

The two most divisive issues—the structure of the TUC general council and the TUC's relationship with the National Economic Development Council—have resisted all attempts to bridge the gaps between the main protagonists. On incomes policy, the TUC is likely to continue to look both ways at once—though it may also commit itself to a wages plan aimed at eliminating low pay.

Motions opposing proposals to be presented to Congress by the general council, which set out a system for automatic representation on the council of all unions with more than 100,000 members, have been combined in one resolution.

This will call for an examination of alternative plans for structural reform, with particular emphasis on improving representation from a wide range of industries through a revised trade group structure.

Amendments to this, from the Post Office Engineering Union and the Association of First Division Civil Servants, will also form one resolution. This calls for the "automaticity" principle to be implemented but to be reviewed after five years.

Congress will face a choice of three positions over the NEDC. The Iron and Steel Trades Confederation, unusually, takes the most extreme position, arguing that the TUC and its affiliated unions should "withdraw representation from all, official and semi-official (Quango-type)

government bodies, including the NEDC."

The print union Sogat '82 and the white-collar engineering union AUEW-Tass will back a composite motion arguing simply for withdrawal from the NEDC. The Association of Scientific, Technical and Managerial Staffs, however, will propose that the issue of membership of the NEDC be deferred until after the next election.

A set-piece debate is also expected on a motion from the Amalgamated Union of Engineering Workers. This reaffirms the TUC's commitment to free collective bargaining.

An amendment to this from the ISTC "notes with alarm the current problems arising from free collective bargaining under the present government" and seeks support for discussions on earnings and incomes within the framework of the TUC-Labour Party liaison committee's document Economic Issues Facing the Next Labour Government.

But union leaders anxious to find grounds for constructive talks on pay with the Labour Party, avoiding the simple dichotomy between free collective bargaining and incomes policy, are looking to motions on low pay from the National Union of Public Employees and the General and Municipal Workers' Union.

These call for the unions and the party to open talks on a nationally negotiated minimum earnings level, together with action on minimum wages, strengthened Wages Councils and fair wages system.

BT sale plan attacked

BRITISH TELECOM'S largest union, the Post Office Engineering Union, yesterday launched a campaign against the Government's plans to privatise BT, which it said were "unnecessary, divisive and against the interests of the community as a whole."

In a submission to the Department of Industry on the Government's recent White Paper on the future of BT, the union argues that the introduction of private capital will encourage BT to eliminate unprofitable services.

Mr Bryan Stanley, general secretary, said: "The Government cannot have it both ways. It cannot turn BT into a private company and tell it to act commercially, and at the same time require it to carry out non-profitable operations which would be unacceptable to any normal company."

• BT, which last week announced record profits of £458m, is planning to reduce its workforce by 15,000 over the next five years through "natural wastage."

This announcement appears as a matter of record only.



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to attract the trade essential to survival.
Union officials and shop stewards now have to ensure the smooth working of the stretching of the gangs in certain areas, and reduced manning in others, including the Royal Seaford Dock complex. This is to ensure a pool of men is always available when there is an upsurge in trade.

The union negotiators on the port modernisation committee were able to get the crucial deal accepted by most of the men last week, after four months' negotiation.

Mr Denis Terry, chairman of the port shop stewards, said yesterday: "It means a reversal of previous policy but we realise it has got to work if we are

The company said it will save nearly £1m by the recent closure of its cargo handling operation at Birkenhead.

• The Ribble bus company's

depot at Aintree, near Liverpool, will resume north Merseyside services this morning.

There is no doubt the dockers

have been beaten by an industrial dispute over

the weekend. The 103 drivers

walked out on Friday, after a

colleague, who had been dis-

missed for indiscipline, had his

final appeal rejected.

Community Programme 'could boost jobs'

BY PHILIP BASSETT, LABOUR CORRESPONDENT

THE GOVERNMENT'S employment services agency, the Manpower Services Commission, estimates that the Government's new Community Programme for the long-term unemployed could provide many more full-time jobs than the scheme it is replacing.

In a letter to London voluntary organisations—which have decided to block the new Community Programme (CPS)—the MSC said: "We estimate that there will be at least as many full-time jobs in the system as there currently are under the Community Enterprise Programme (CEP) (ie 30,000). There could well be many more."

The CPS, unveiled last month by Mr Norman Tebbit, Employment Secretary, as a replacement for the CEP, offers

much propaganda. In the past year it has held a special conference of executives in Tebbit, to unite unions round an "eight-point plan" of opposition. The speeches, printed as an annex to the report, came from most of the movement's leaders.

At Congress next week, more motions—from the mineworkers, the engineers and the sheetmetalworkers—will call for still more militant resistance to the new legislation.

The unions have much to fear, however. The 1980 Employment Act—the "Prior Act"—has limited their immunities, constrained the operation of the closed shop and outlawed secondary picketing.

The reason why the thunders

ing on both sides must be regarded with scepticism is that both have been careful to keep their powder dry. The Govern-

ment has advanced while the

TUC has retreated, which has infuriated left wingers in the Labour movement.

But only the unwise will conf

use a movement in tactical

retreat with one bleeding to

death, and Mr Tebbit is not an

unwise man.

He will consider that of the

two court cases brought under

his predecessor's legislation

Hudson v ACTT was decided in

favour of the union, while the

second, the Newspaper Publishers' Association v Mr Sean

Gerry, resulted in the latter

being fined a mere £350.

Mr Tebbit will wonder what

the fury of the unions could

must to defend an imprisoned

Mr Gerry if he had been

martyred with swinging fine

in the cause of the health

workers—and so will they.

The health workers' cause will

be a unifying theme at Brighton

with the unions pressing for

widespread sympathetic action

on September 22 in flagrant

breach of the 1980 Act—part

to tempt Mr Tebbit and the

employers out of their corner

and then take them on in the

court. But it would be sur

prising if the play worked.

On the eve of Congress, less

than a week hence, the TUC

would report a further large drop,

some 600,000, in membership.

Yet the proportion of unionised

employees remains roughly the

same, even slightly higher than

before. No union has been

"smashed" as the U.S. Air

Traffic Controllers were by

President Reagan's Administra

tion.

The strategists on both TUC

and Government's sides know

well that the last 3½ years have

been spent manoeuvring round

one of the central questions of

British politics—an what terms

is organised labour to play its

part in the economy? The

question has yet to be answered.

Civil Service unions may curb local joint committees

BY PHILIP BASSETT

CIVIL SERVICE union leaders are proposing tight restrictions

on the operation of joint local

union committees. Securing the

reintroduction of these com

mittees was seen as a key gain

for Left-wingers at the unions'

annual conferences earlier this

year.

Union leaders are split over

a confidential paper on the

reintroduction of local com

mittees, which effectively ran

at local level, the 21-week cam

aign of strikes in the Civil

Service last year over pay.

The majority of members of

the Council of Civil Service</

July 1982

What you're looking at is no Sea of Tranquillity.

Neither is it a scene from the imagination of some science-fiction artist (although we commissioned one of Britain's finest sci-fi artists to paint it).

It is what you would actually see if the waters of the North Sea suddenly became invisible.

Silhouetted against a huge moon are the four giant production platforms that form the core of the Brent oilfield.

The Brent Field, operated by Shell, lies far out to sea, roughly halfway between Scotland and Norway, and about 100 miles northeast of Shetland.

The painting shows (from left) the production platforms Delta, Charlie, Bravo and Alpha, each towering well over 700 feet above the seabed in its steel, or concrete, socks.

They are built to withstand one-hundred foot waves and winds gusting up to 160 mph while continuing to collect oil and gas, 24 hours a day, from rock depths lying some two miles beneath the sea-floor.

Floating in the far distance (bottom right) is the drilling rig Stadrill, prospecting for oil in another part of the Brent Field.

And riding the invisible seas with contemptuous ease (top right) is the 23,000 ton semi-submersible, pipe-laying barge Semac I.

FLAGS: a major new gas-gathering scheme in the North Sea.

We used Semac I to lay one of the world's longest, largest, deepest undersea pipelines. (The painting shows the pipe being fed over the stern of the barge and trailing down to the seabed.)

The pipeline is the backbone of a major new North Sea gas-gathering scheme known to the oil industry as FLAGS: Far North Liquids & Associated Gas System.

It will enable us to bring ashore the substantial and hitherto untapped gas reserves of Brent and other oilfields in the northern North Sea.

The FLAGS pipeline, 36" across and made of steel coated with concrete, runs 280 miles along the seabed between the Brent Field and St. Fergus in Scotland.

Laying it was an astonishing feat.

The North Sea is no millpond. It is quite the most hostile stretch of water the oil and gas industry has ever tackled.

Much of the pipeline was laid in appalling weather: force 10 gales, thick fog rolling in the troughs between giant waves, zero visibility.

The FLAGS system will before long be supplying some 12% of Britain's gas needs. (The Brent Field already supplies about an eighth of Britain's oil.)

But neither statistics nor adjectives (nor the vastness of our operating costs) can ever give you a real sense of the scale and scope of our work in the North Sea.

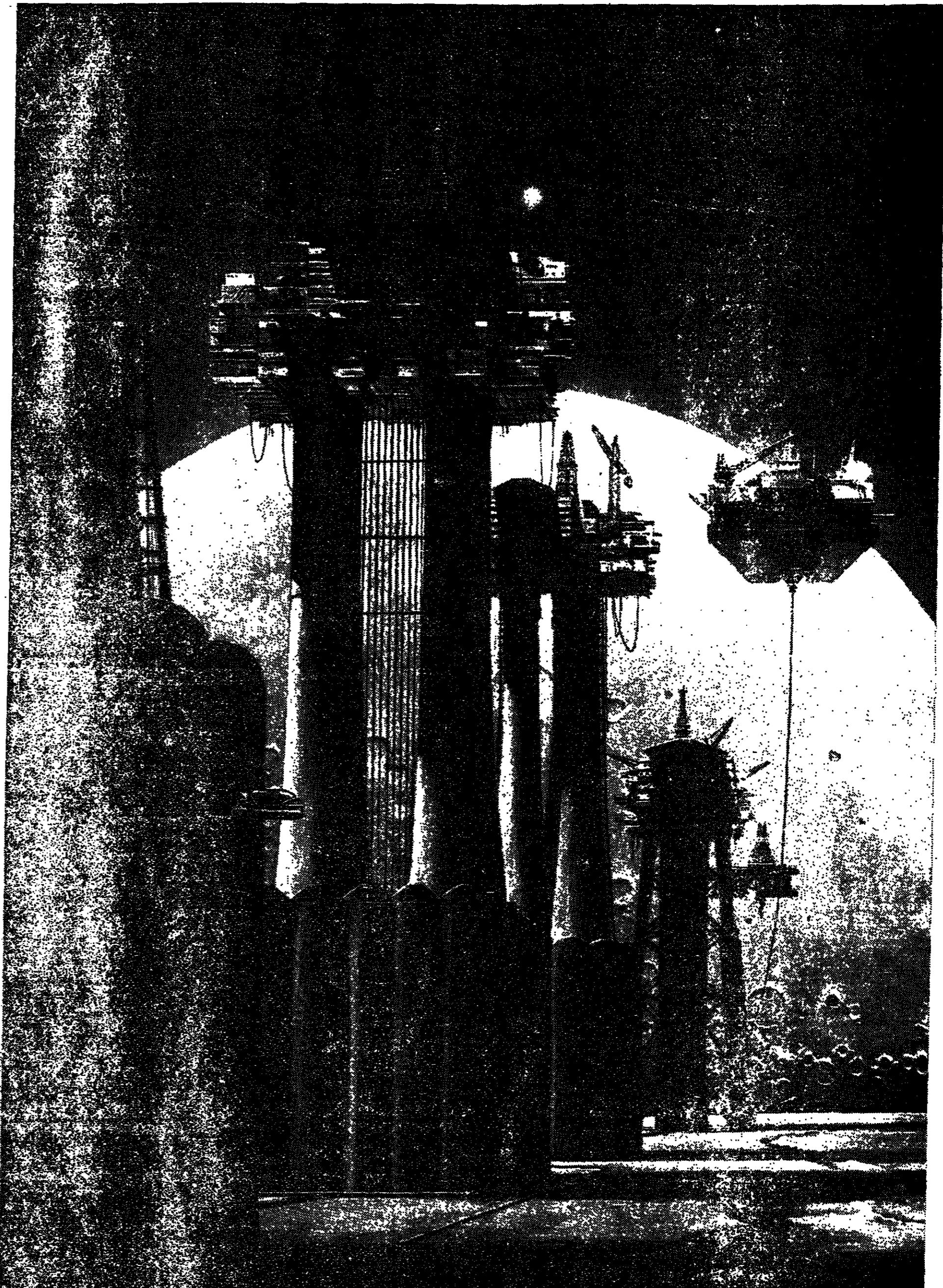
The Brent Field: an offshore oiltown.

The Brent Field, for instance, does not simply consist of the four great platforms attended by a pipe-laying barge and a drilling rig or two.

Several other giant structures (like the floating oil-storage and-loading facility, Spar) are nearby. And platforms may be attended by 'fleets' (floating hotels) and semi-submersible diving barges.

Tugs, tankers and supply boats ply the surface, the latter bringing in everything from drill-pipe, cement for well-casing and drilling mud, to food and fuel.

Under the surface, mini-subs and diving-bells are at work. While in the skies, helicopters constantly come and go,



bringing in vital tools and flying drilling crews and other technicians in and out.

Our platforms and rigs are crewed by over 3,000 men, who manage to tuck away well over 100 tons of food each week.

Power to keep the big platforms working is generated by turbines similar to those which fly large jet aircraft.

Computer banks continuously receive and process information about subsea oilwells and the many working functions of each platform, key data being relayed simultaneously to the platforms and Shell headquarters in Aberdeen.

The cost of these operations is so immense that it beggars description.

One way of putting it is that Shell's expenditure in the North Sea has amounted to more than half a million pounds per day, every day for the last eighteen years.

When we add up our chequebook stubs, our total investment to date works out at more than £4,000 million in 1981 money. Those figures double when you include the sums invested by us on behalf of our partners.

A conquest to rival the moon-landings.

Although there are projects which cost more, in terms of sheer technological innovation there is no other achievement on earth to match the conquest of the North Sea.

We have pushed back the limits of technology so far that the only feat which invites comparison is otherworldly: the placing of the first men on the moon by NASA's Apollo space programme.

As a matter of fact, the computer-room that monitors our operations has a great deal in common with that famous control-room in Houston.

And Shell is proud to be in the forefront of an endeavour which only twenty years ago would have been dismissed as pure science-fiction.



You can be sure of Shell.

THE ARTS

Architecture/Colin Amery

A new critical language of three-letter words

At last, someone has had the courage to say it. For a considered view of modern architecture in future we will know where to look. We should sit at the feet of the wise and learned Mr Owen Luder who is none other than the president of the Royal Institute of British Architects. He has broken through the barking bubble of the critics, stifled the screaming semiologists, attacked the arguments of the academics. In one bold stroke he has given voice to the views of a whole generation. It happened like this.

He was standing in front of the gleaming silver model of the entry by Richard Rogers for the National Gallery competition when the moment of illumination came. "This," he said to a large band of Press men who were by chance passing at the same time, "is a sod you building."

It was a moment of truth. So that is it. The whole barbarous point of so much modern architecture was suddenly made only too clear. Architects have all along been following the Luder line and designing horrible buildings quite deliberately. In the true spirit of punk, modern buildings are designed as deliberate insults, as affronts, as crude and coarse ex-

pletives that expose the hideous reality of modern life. And we credit the popularity of the Luder line—back your favourite and forget professional reticence, let alone impartiality—has so incensed most thinking people that they thought that this was one competition that is far too important to be left to the architects.

Of course many of us had a faint suspicion that this might be the case—and it is a relief, I can tell you, to know that at last the elected leader of a profession that has so much influence on our lives has let the scales fall from his eyes. The effect on criticism will be profound. When will the brave President come out and admit that many of the buildings designed by members of his institute can now struggle for the ultimate accolade? When will he dare to speak again and name those buildings worthy of the four-letter word Presidential seal of approval?

The sudden gust of fresh air into the stuffy corridors of architectural criticism that has blown from the top of the professional tower block may be

all but impossible to co-ordinate. Whatever the reason, the effect of these rough-cut gems—notably, Lady Madeline's two brief lyrical intermissions, the charged neo-Musorgskian monologue for Roderick, or, most remarkably, the long *mélodrame* of the penultimate fragment—was out of all proportion to their length, even perhaps to their immediate comprehensibility.

The final fate of *The Fall of the House of Usher* must remain no more than this: yet I should be the last to complain of such an experience, mesmerically gripping, a vigorous stimulus to the imagination of all Debussys and, surely, others beside them.

The purely musical portion of Sunday's reading, supplied with expert singing by Philippe Huttonlocher (Roderick), a radiant Jennifer Smith (Lady Madeline), Philip Langridge (Doctor), and Ian Caddy (also a brave French speaker, though less than absolutely perfect, in the Friend's *mélodrame*), indicated that this work had received a closer degree of rehearsal consideration from Mr Rattle than the other works on Sunday's bill—or, for that matter, than most of the four on the Sinfonietta schedule the previous Friday evening in the Elizabeth Hall.

Mr Rattle has been spreading his prodigious musical gifts dangerously thin over the last fortnight. Sunday's accompaniment to the solo part of the Mozart C minor concerto, K491 (with *Annie Fischer*, a pianist in whom visionary poetry and nervous stumbling mixed with unaccountable frequency), was punctilious in support but immature and characterless in every other particular. Likewise, Alfred Hodgson's calmly magisterial account of the *Mabier Kindertotenlieder* on Friday was sung to what sounded unhealthily like familiar, adept London-orchestra sight-reading rather than anything more meaningful.

Sunday's Stravinsky *Symphony of Psalms* (with the London Choral Society) was thoroughly unsatisfactory; the *Symphonies* and *Stabat Mater* on Friday (with the Sinfonietta Voices) was no more than a hint of what this marvellously talented young conductor can do when his full sympathies are sensibly engaged.

All the same, the performance

Of deliberate roughness there

Berg & Mahler/Albert Hall

David Murray

Coming at the end of the Mahler tradition as it does, Berg's *Violin Concerto* made an odd sort of preface to Mahler's First Symphony in Saturday's Prom. Salvatore Accardo was the sterling soloist—technical

omni-competence, a suitable sweetness of line, and the unselfishness to choose the less showy, more lyrical option in the cadenza (which lets an orchestral viola or two relieve the violin of half his difficult canon). Claudio Abbado and the London Symphony produced a sound but too little tension in the first movement. An increased sense of purpose made itself felt once the music entered its more dramatic phases; one rarely hears the rich horn parts so finely shaped and prominently effective.

All the same, the performance

Of deliberate roughness there

the Gallery relate to the old? Again the ARK scheme with grand barrel vaulted spaces offers an enhanced dignity to galleries and seems to understand the point of architectural continuity—which is not the same thing as copying or pastiche. What will it be like having a cup of coffee in the basement coffee room of this scheme looking onto a sunken garden? Will the lifts and stairs be adequate for the large numbers of visitors? Apart from the feel of the building inside and out and its relationship to the Square—how well do any of the entries deal with the complex conditions needed for showing pictures?

I often wonder, as a rather old hand at looking at architects' plans, models and presentations—what exactly the street makes of it all. First of all models are very misleading things. They tend to show buildings as they are seen only by the Trafalgar Square pigeons. If possible try to look at them at eye level. They also offer little clue about materials. The street facade of the excellent proposals by Ahrend Burton and Koralek, for example, has arched stone panels which are to be made of smooth Bath stone which stand out in grid patterns against the Portland Stone walls. Think of the two colours of the stone and you have some idea of the suitability of the facade for the Trafalgar Square area.

The views of the public should be considered and the competition is a little vague about the status of these views. All that matters is that they are not blantly disregarded, as they were during the Vaux-

hall Cross site competition just

because they did not accord with the views of the

theatre.

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The National Gallery is, after all one of the few galleries in the world where everything that the gallery owns is on public view, and this can cause problems. The technical conditions are matters for the gallery and the assessors. Public views will give perhaps subjective reactions—but these are important. What the excitement and public interest shows far more clearly than the ludicrous comments of the RIBA is how complex and difficult it will be to make the right choice. Making judgments is more difficult than Mr Luder realises—kind though it is of him to try and simplify the critical climate.

Plans too never quite seem

to tell you enough. How do the

rooms for the next extension of

the Gallery relate to the old?

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TECHNOLOGY

EDITED BY ALAN CANE

Canon's new range designed for the low volume user

Personal copiers without maintenance

BY ELAINE WILLIAMS

Tomorrow Canon, the Japanese business equipment and consumer electronics company launches a revolutionary range of photocopying machines aimed at the small user.

Canon says the new range of personal copiers eliminates the need for maintenance by service representatives.

Anyone who has been faced with the problem of hunting around the office on a Friday afternoon to find a working machine will appreciate Canon's claim.

The problem of maintaining these complex bits of machinery has been a major barrier to the use of plain paper copiers by the small user with low volume needs.

Canon's new range of plain paper copiers sit on the desk and have disposable parts. They have features which are as sophisticated as larger machines but are far cheaper. Prices will be in the region of £500.

By entering the low cost end of the market Canon competes against coated paper copying machines produced by companies such as 3M and Pitney Bowes. Until now only coated paper copiers using sensitised paper have been priced low enough to attract the small user.

There are two models in the

Personal Copier range—the PC10 and the PC20. Canon claims that the PC10, which is manually fed, is the smallest of its type in the world. The PC20 is slightly taller to accommodate a plain paper cassette to allow continuous copy feed.

Both microcomputer controlled machines will produce copies on to non-sensitised paper ranging from air-mail thickness to card. A floating pressure-sensitive roller automatically adjusts to cope with varying paper thicknesses.

Particles

In addition, the machines can accept metal surfaces and will also copy on to film for overhead projection and audio visual aids.

All plain paper copiers operate on the same principle. Using a lens and focusing arrangement, the image of the writing on the paper to be copied is stored temporarily on a photosensitive drum. Tiny particles of ink stick to the drum—which has become electrically charged.

The ink is then transferred to a plain sheet of paper as it passes under the drum. The ink is then fixed by heating. Canon says that the copier is quite economical to run as it re-uses the disposable units.

quires only moderate heat for fixing. It takes about 20 seconds to warm up the copier so that the machine does not need to be left on all day.

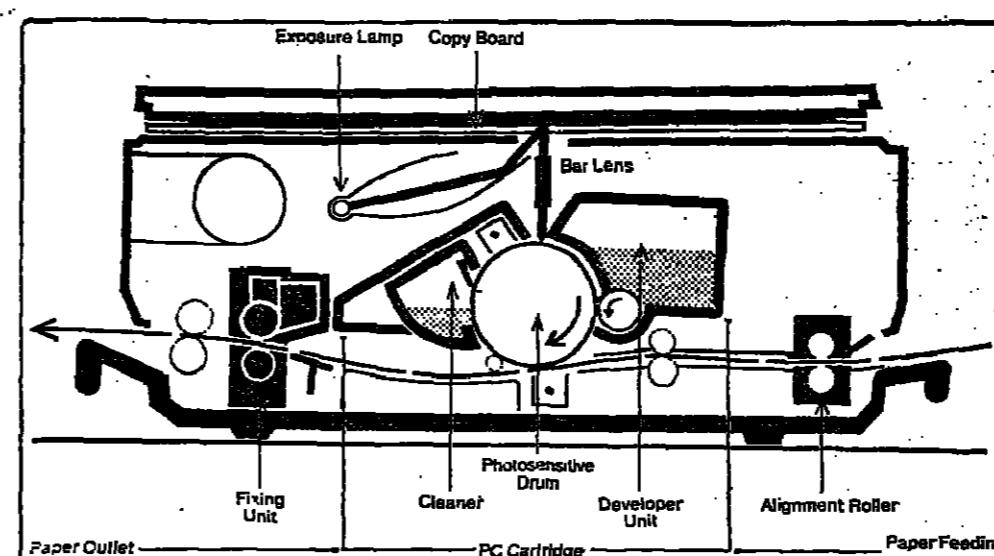
The copier is built around a disposable cartridge containing a photosensitive drum, development and toner assembly and all the other parts which wear out in such a machine.

After about 2,000 copies have been made, the cartridge is thrown away. Based on the prices announced in Japan, a cartridge would cost about \$100 to replace. Canon says that eventually prices would be less than 10 per cent of the new machines.

Mr Fujio Mitarai, President of the company's U.S. subsidiary, said that the company aimed to reach production levels of 20,000 a month during the first year.

It hopes to sell 50 per cent of its output in the U.S. by the end of next year. Initially however, the emphasis will be on home Japanese sales with overseas introduction beginning in November. Eventually, exports are forecast to grow to 70 per cent of total production.

Market analysts in the U.S. believe that the cost of the copier will be crucial to its success, especially the price of the disposable units.



Chinese method speeds wine maturity

As a keen home wine brewer, I am often impatient about waiting months for my wine to mature. Chinese commercial wine-makers seem to have the same problem.

However, technologists

claim to be able to cut the maturing time down from months to a mere 12 minutes by the use of an electronic device which emits high-frequency radio waves, ultrasonic sound and ultraviolet light.

Apparently this combination drives the harsh and astringent flavours out of new wines. About two dozen wine companies in China have obtained good results with the device which costs around \$10,000.

Fire sprinklers

'Memory' metal shows promise

BY MAX COMMANDER

NITINOL, a nickel-titanium alloy, is a rather unusual metal. It has been called the one with a 'memory' because it can expand or contract when heated and return to its original shape when cooled.

Now, researchers at Battelle Columbus Laboratories in Ohio have incorporated the metal into a prototype fire sprinkler.

Robert Geoghegan, one of two people heading the Battelle study team, told me that there has been concern in the U.S. over the response time for domestic fire sprinklers. Most were slow to react until the heat had reached a point where the low temperature solder melted and thus actuated the sprinkler.

While there are not many homes in the UK with sprinklers, the research could well be of use for offices, public buildings, palaces, whatever.

The research at Battelle has concentrated on using Nitinol as a heat sensor component within the sprinklers so that it can be turned on or off at pre-specified temperatures.

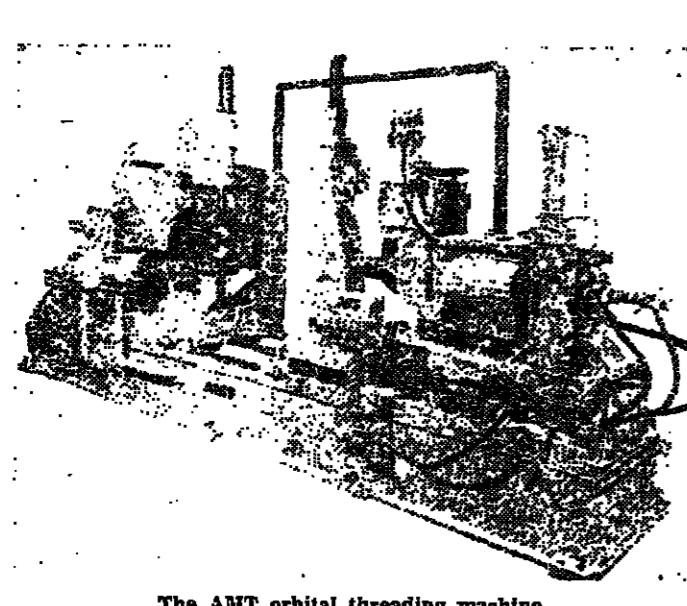
The researchers say (and this sounds more of a job for a midwife) the contraction of the metal releases the water.

The prototype as an 'on only' sprinkler head has undergone tests at a room fire with sensitivity tests. These measured the response time in a 12 ft by 24 ft wood-panelled room with furniture. Eye level temperatures, the laboratory claims, did not exceed 55 degrees.

Battelle researchers have also designed an off-on sprinkler to automatically stop the water flow after the fire heat drops, basically to prevent water damage after the fire.

The whole system is still at prototype and report stage and there are no plans at the moment for production, but people in the field in the UK might like to ask for the report that will be passed to the U.S. Government.

People to talk to are Ilene Zeldin or Bob Geoghegan. Battelle is at 505, King Avenue, Columbus, Ohio (614 424 7728).



The AMT orbital threading machine.

Metal threading

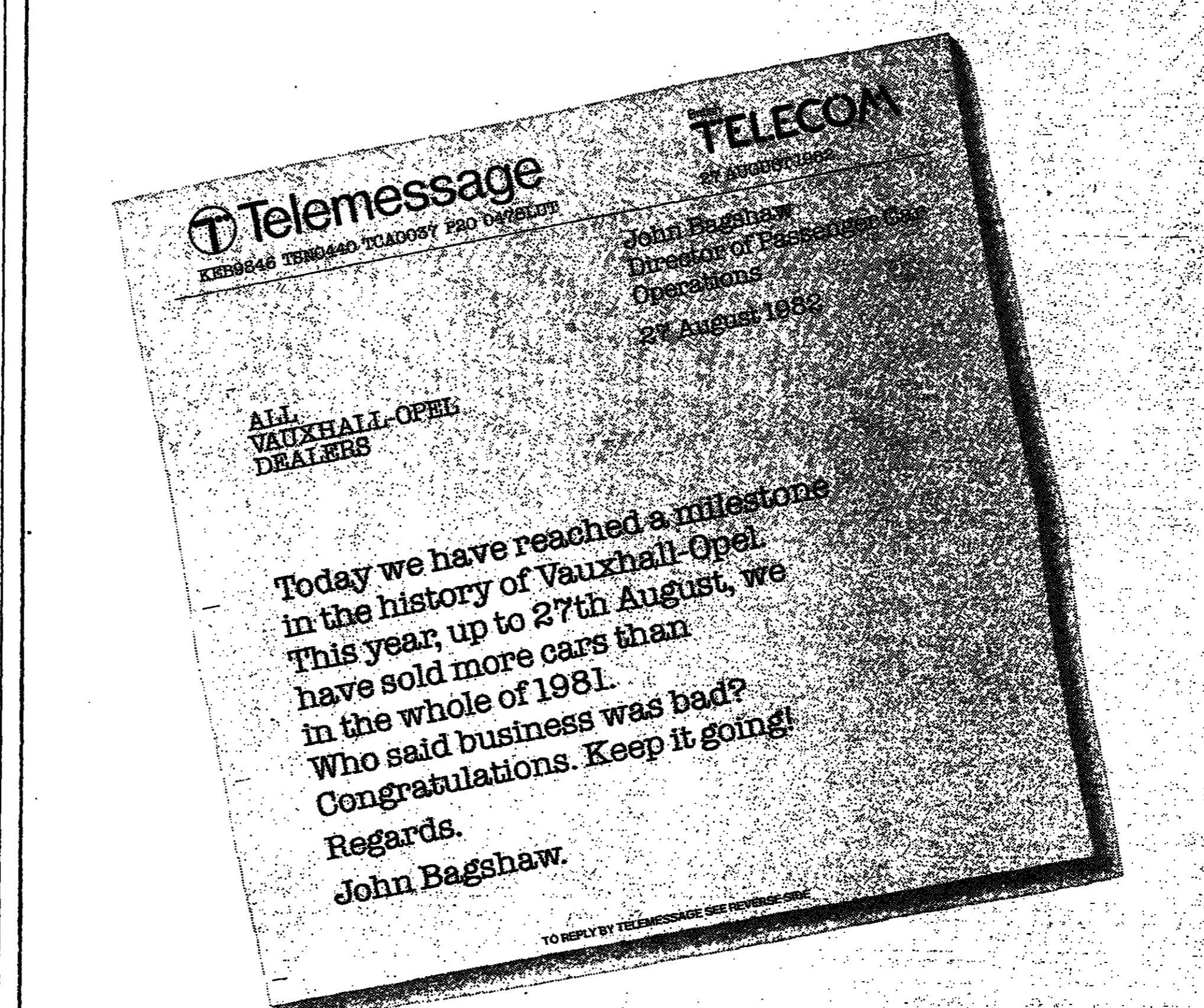
Heavy duty design from Birmingham

DESIGNED FOR heavy duty applications such as large pipes, axle castings, pipeline valve bodies, where rotation of the component for conventional threading is undesirable because of its size or configuration, this Orbithread orbital threading machine has been designed by AMT of Birmingham.

The machine clamps the component so that it is stationary throughout the thread-milling operation. It is offered in single or doubled opposed head versions each capable of threading components up to 12 and 14 in inside diameter.

A standard machine consists of a single spindle head fitted on slideways with a cross facing attachment mounted onto the main spindle nose. The cross facing movement is achieved by a hydraulic cylinder operating

Every message tells a story.



Why don't you call in to your friendly Vauxhall-Opel dealer and see for yourself why so many people are driving our cars.

Lasers

Prototype stabiliser

BRITISH Aerospace Dynamics has demonstrated a prototype stabiliser for hand-held laser range-finders. The system, intended for military applications, is intended for soldiers with shaking hands.

The system helps the operator hold the laser beam on target for the short time required to measure its range. Without stabilisation for a cumbersome tripod mounting, it is not easy to get the correct range.

British Aerospace has produced the prototype stabiliser for helicopter trials. More information on 0433 2422.

The good news is
FERRANTI
Selling technology

to 9720:1 as standard but other ratios are available, if required. More on 0734 861485

Machine tools

Profile cutter

SHAPECUT Machines of Reading has introduced a co-ordinate drive line following profile cutter designated the Copycat 3000. There are two sizes with tracing widths of 50 or 60 inches and cutting widths of 60 or 80 inches. Details on 0734 696565.

Gearboxes

Improved torque

LOOKING for a precision reduction gearbox? Portescap of Reading has introduced a new model in its RGI range with an improved torque capacity compared with its existing models.

The RGI/9 is designed to operate with all Escap motors in the company's 23, 26, 28 and 34 series. It offers 13 reduction ratios from 5.5:1

Valves

New range

A new range of shot metering valves to handle high viscosity substances has been announced by Kent-Moore UK. The company is at Stockfield Road, Acocks Green, Birmingham (021 767 6955).

VAUXHALL-OPEL
Better By Design



جامعة الزيارات

THE MANAGEMENT PAGE: Small Business

Big company experience finds a smaller home

Tim Dickson on how a Government scheme opened up a new career for a redundant electronics engineer

Two years ago Pat Brady would never have dreamt that he would end up working in a small firm.

A lifetime with big business, after all, is a hard habit to break and though he had just been made redundant by Francis Industries at Wrexham, he thought he would have little difficulty finding a new job.

Fifty-three interviews and six months later, the 55-year-old electrical and electronics engineer realised his mistake.

Like so many executive victims of the current recession, Brady travelled the country literally. He visited companies from the North of Scotland to the South Coast of England in search of a new career. Occasionally he was shortlisted but invariably he was pipped at the post.

Today—thanks to a little publicised Government-backed scheme—Brady is the proud and enthusiastic head of engineering of Dee Electronics, a small engineering business in North Wales which is just under five years old and employs 28 largely semi-skilled people at a factory just outside Queensferry, Clwyd.

Opportunity

Brady was one of the first of 10 redundant executives who, over the last year or so, have been offered the opportunity to begin a new career under what is called the "Expand a Firm" Scheme. (See adjoining piece for details.)

Financed by the Manpower Services Commission and administered by the Cambridge-based Industrial Training Research Unit, the scheme was launched last year to match out-of-work executives having professional, technical or business expertise with small manufacturing businesses showing potential for growth.

Development "fellowships", as the awards are known, last for exactly one year and provide up to £7,000 to pay for the successful individual's salary. If the 12-month experiment works, the organisers hope a permanent relationship will be cemented.

Given the independent spirit, not to mention the downright stubbornness of many small business proprietors, "Expand a Firm" might to some people sound like a recipe for managerial strife.

Based on the experiences of Brady and his new boss Jim Robertson, however, the scheme has not only contributed significantly to at least one firm's prosperity but given someone otherwise destined for the executive scrapheap a new lease of working life.

Looking back to Brady's arrival 15 months ago, Robertson concedes that it was a relief when Vic Owens, head of the Welsh Development Agency's Small Business Unit in North Wales asked him if Dee would like to participate.

Originally a simple merchanting operation which Robertson set up in 1977 after losing interest in his selling job with a Birmingham company, Dee has since specialised in the design and manufacture of electronic control equipment for products as diverse as washing machines, domestic heating appliances and domestic and industrial alarm systems. The first year's turnover of £25,000 was doubled in year two and has since grown at a steady 20-30 per cent a year.

"I was up to my ears and working 24 hours a day when the chance of taking on someone like Pat came our way," recalls Robertson. "I was doing the selling, organising, design, testing and production and although I knew we needed somebody else, we couldn't afford to pay him at the time."

Fourteen months later Robertson says—with deliberate understatement—that Brady "earns his keep".

His major contribution has been to share the workload, allowing Robertson to cut himself off from day-to-day technical development and concentrate on what he is best at—sales and promotion.

Thanks in good measure to Brady's technical ability and his imagination in developing new and better products for Dee's customers, turnover has

grown significantly and the company's order book is full well into the second quarter of next year.

Brady has also started a modest and informal training programme, giving three enthusiastic youngsters, taken under an MSC programme, the benefit of his experience. He has been prepared to muck in and work the flexible hours often necessary in a small company," adds Robertson. "You don't meet too many like him with a big company background. I wouldn't say that we've had disagreements as such, though it obviously took Pat a while to get used to this environment. There's no big brother around here if you want something. You've got to earn it first."

Relief

For Brady, working at Dee Electronics has been "damn interesting, challenging" and quite frankly a relief to know that I still have the capability to do the things I was doing 20 years ago.

One of the biggest differences between big and small is the speed at which we have to turn things round. A company can ring up and say that they want, say, a detector stage built into a monitoring system and we have to jump to it to get the order finished in time."

Brady also says the experience has forced him to brush up on technical skills which, in the last few years had become a little rusty.

At a big company's R & D. department you tend to look down very narrow bands, otherwise you quickly overlap into somebody else's backyard. The range of skills required is much wider in a small business. If you've got a knotty problem you can't, for example, hire an expensive consultant to come and sort it out."

Brady has also learnt to concentrate his efforts on commercially viable products. "Lots of people come to us with what are interesting ideas but in a small company you just can't necessarily afford to waste time on them."

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Sharing the workload: Jim Robertson (left), who started Dee Electronics five years ago, and electrical and electronics engineer Pat Brady

Emphasis on 'sophisticates'

EXPAND-A-FIRM grew out of a collaboration between Dr. Meredith Belbin, chairman of the Cambridge-based Industrial Training Research Unit and Alan Randall, former chief executive of some of the smaller subsidiaries of the Imperial Group.

The research unit used to be part of University College, London, but it is now almost entirely financed by the Manpower Services Commission. It is an independent body engaged largely in researching and developing new initiatives in the job training and job creation fields.

Launched in the spring of last year with a modest £25,000 a year budget, "Expand-a-Firm" essentially puts one of Belbin's theories of manpower to the test.

I strongly believe that the best way of generating employment is to concentrate on what we call "sophisticates," he says. "These are people with high level skills who can create wealth and thereby jobs for other people lower down the line."

The existing philosophy of turning unskilled workers into skilled or semi-skilled employees does not work when there is a shortage of jobs."

Belbin admits that in most cases it is too early to judge the success of "Expand-a-Firm." But the early signs are certainly encouraging.

Of the two formerly redundant executives who have completed their 12 months,

one (Pat Brady above) has one (Pat Brady above) has joined his company on a permanent basis while the other has left to set up his own business.

Six other "fellows" are currently half-way through their year and Belbin estimates that the firms involved may already have taken on 30 additional employees as a result. In one case the development of a new process holds out the prospect of a significant longer term boost to employment.

Elsewhere, the recent appointment of a "fellow" in Newport, South Wales, is expected to save up to 17 jobs.

Although in this case the death of the chairman has put the business in jeopardy, "Expand-a-Firm" is aimed primarily at healthy manufacturing firms, independently owned, which employ less than 100 people and are located preferably in an area with above average unemployment.

Individuals, meanwhile, are likely to be over 30 but can come from any type of business background provided they fit the bill.

The key to the ultimate success or failure of the scheme undoubtedly lies in the way that the unit matches individuals with firms.

Initially the unit relies on various regional "agents" such as the Welsh Development Agency and the Scottish Development Agency to come

forward with candidate companies, while the Professional and Executive Register (PER) is used to trawl for potential key employees.

Randall, as project leader, that visits interested firms with a colleague. They explain how the scheme works and weigh up the prospects for growth.

Individual applicants, meanwhile, have to take two of Belbin's tests—the first a "Self Perception Inventory on Team Role Characteristics" assessment, designed to give the research unit a good idea of an individual's temperament and compatibility with a particular small firm proprietor.

The second is a "Job Feature Questionnaire" which involves looking at 30 pairs of jobs and saying which of the two in each case is preferable and explaining why.

Both these tests are based on Belbin's thesis—based on extensive and well documented research—that managers do not have to be whiz kids but should have one or more characteristics which enable them to excel in a management team.

"Expand-a-Firm" will not suit every individual or every small company. However, the scheme seems to be a happy example of co-operation between academics and businessmen. And given the potential a cost per job of £7,000 appears to be a good return for the taxpayer.

Small firms get a voice in Europe

THE APPOINTMENT of 35-year-old Bill Poetson to serve on the Economic and Social Committee of the European Parliament is a timely boost for all small and medium sized firms, whose interests he will represent.

The significance is perhaps that much greater for in these cases the invitations come direct from 10 Downing Street.

Poetson is National Spokesman of the Union of Independent Companies (UIC), whose 250 elected members are all manufacturing businesses, organised into regional groups along parliamentary constituency lines.

His appointment will last for four years.

The Economic and Social Committee is an influential consultative body whose task is to advise the Council of Ministers and the European Commission.

Under the EEC Treaty Ministers and the Commission are required to consult the Committee before taking any action.

Poetson is a passionate believer in positive discrimination for small companies and says that the present UK Government has not yet been converted to this faith.

He points enthusiastically to a background paper by the Committee published in May which argued that "while a favourable investment climate created by appropriate macro-economic conditions forms the soundest basis for the foundation of Small and Medium Sized Companies, we must not forget that the same conditions make it much easier for large firms to expand." In other words, says Poetson, reductions in interest rates and cuts in the National Insurance surcharge—which help all companies—are not sufficient on their own for the small business sector.

This is a view which has brought him into conflict



William Poetson

with certain people, including some in the Confederation of British Industry—from which the UIC broke away in the mid-1970s.

The UIC is about to conduct its own survey of industrial opinion to test the mood of the small manufacturing sector.

The decision stems partly from the farce over the last CBI survey which painted a very depressing picture of the country's economic prospects.

"We think that gloom generates gloom," says Derek Young, the UIC's national chairman. "Although we are going through a terrible recession and our members have been bumping along the bottom, the impression we get is that they are not at their best. Things are better than they were a year ago."

Publication of the findings will depend on whether the results are significant. "But we won't conceal them if they turn out to be bad," promises Young.

Tim Dickson

first of a number of initiatives aimed at helping small companies win a bigger share of public purchasing contracts.

Representatives from the Property Services Agency, the Post Office, British Rail and North Thames Gas will be present.

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BBC 1

6.49-7.55 am Open University (Ultra High-Frequency only).
9.20 Scooby and Scrappy Do. 9.40 Jackanory. 9.55 The Wombles. 10.00 Take Hart. 10.20-10.30 Play Chess! 10.50 "Palm Beach" ("Interlude" film from the early '60s). 10.55 Cricket: Third Test—England v Pakistan from Headingley. 1.05 pm News After Noon. 1.35-1.50 Bagpuss. 2.38 Flirtation Waltz ("Interlude" film). 3.40 Home on Sunday. 4.18 Regional News for England (except London). 4.20 Play School. 4.45 Blue Peter. 5.10 John Craven's Newsround. 5.15 Animal Magic.

5.40 News.
6.00 Regional News Magazines.
6.25 The Show Me Show.
7.00 Hi-De-Hi!
7.30 "An Inspector Calls" by J. B. Priestley, starring Bernard Hepton, Nigel Davenport, Margaret Tyzack and Simon Ward.

8.00 A Day at the Zoo. Esther Rantzen reports on 24 hours in the life of London Zoo.
9.00 News.
9.25 Stocker's Copper by Tom Clarke, starring Bryan Marshall and Jane Lapotaire.

10.00 "Maigret," from a novel by Georges Simenon, starring Rupert Davies.
11.30 Rafted Sea On Rocks ("Interlude" film).

All TBA. Regions as London except at the following times:

ANGGLIA

5.25 am Sesame Street. 10.25 Spread Your Wings. 10.30 Joe 90. 11.15 Speedway. 12.30 pm Gardening Time. 1.20 News. 3.50 Looks Familiar. 4.15 About... 5.30 Simon & Simon in Concert. 12.20 pm Forty Years On.

BORDER

7.40 am The Lamb. 9.40 Evolution. 10.00 The Concert. 10.20-10.45 Baileys' Bird. 1.20 pm Contact. 11.30 Spiderman. 1.20 pm Border News. 3.50 Looks Familiar. 4.15 Happy Days. 6.00 Lookin' Around. 6.30 pm The Weather Bean. 21 Before... A special programme to mark the 21st Anniversary of Border Television. 11.15 Barney Miller. 11.45 Border News. Summary.

CENTRAL

8.55 am In the Arms of the Octopus. 10.00 The Concert. 10.20 pm The Crocodile Hunter. 11.30 pm The Crazy World of Sport. 12.30 pm The Young Doctors. 1.20 Central News. 3.50 Looks Familiar. 5.15 More and More.

RADIO 1

5.00 am As Radio 2. 7.00 Mike Read. 9.00 Simon Bates. 11.00 Paul Burnett with the Royal Philharmonic. 12.30 pm Dave Lee Travis. 2.00 Steve Wright. 4.30 Peter Powell. 7.00 Talkabout. 8.00 Mark Ellen. 10.00-12.00 John Peel (S).

RADIO 2

5.00 am Ray Morris (S). 7.30 Terry Wogan (S). 10.00 Jimmy Young (S). 12.00 Diana Dors (S). 2.00 pm Ed Stewart (S). 4.00 David Hamilton (S). 6.45 News: Sport. 6.50 Jan Leeming (S). 8.00 The Magnificent Mystery (S). 9.00 The Organist Entertains (S). 9.55 Sports Desk. 10.00 Tom O'Connor at the Variety Club with Alan Randall. 11.00 The Sunday Programme. 11.15 Brian Matthew presents Round Midnight from the Edinburgh Festival.

TELEVISION

Chris Dunkley: Tonight's Choice

I will say it again: any television company worth its salt should be producing a significant proportion of programmes good enough to demand repertory treatment. I refuse to join in the hypocritical chorus of sneers and derision which greets any season of television repeats. "Not that old thing again!" they cry, and promptly settle down to gloat and sigh over the quality of the good old days.

That quality is exemplified tonight in BBC 1's re-runs of the 1972 Bafta award winning play Stocker's Copper which was written by Tom Clarke (who also wrote this year's excellent "Muck and Brass," surely another award winner) and an episode from the 20-year-old series of Maigret, starring Rupert Davies as the saturnine French detective.

The play, about the 1913 Cornish play workers' strike, I recommend unreservedly: Jack Gold directed it at the top of his form and the location film work is superb. About the plotter I am uncertain, having seen few of the original screenings and being less enthusiastic than some about Davies. He and the series were very popular, however.

ITV's schedule in the London area is a disgrace: an American crime series is followed by a repeat of a recent comedy and from 9 o'clock for three hours everything but the news is American rubbish, all of it set in Los Angeles.

BBC 2

6.49-7.55 am Open University. 10.20-10.55 Play School. 1.25 pm Cricket: Third Test—England v Pakistan. 2.30 Laurel and Hardy Double Bill. 7.00 Junior Pop Black. 7.25 News Summary. 7.30 The Jam at Bingley Hall.

5.00 am Crossroads. 6.25 Central News. 7.25 Magnum. 11.20 Central News. 11.25 Mac Davis in Concert.

GRENADA

9.30 am Larry the Lamb. 9.40 Evolution. 10.00 Cool McCool. 10.20-10.45 Baileys' Bird. 1.20 pm Contact. 11.25 Crossroads. 2.30-2.45 Granada Report. 2.45 Hands. 3.50 Looks Familiar. 4.15 Happy Days. 6.00 This is Your Right. 6.05 Crossroads. 6.30 Diff'rent Strokes. 7.30 Family Trees. 7.30 Simon and Simon. 12.20 Journey to the Unknown.

HTV

9.40 am Sesame Street. 10.40 Tuesday Morning Feature Film: "The Navy Lark." 12.30 pm Gardening Time. 1.20 HTV News. 3.50 Looks Familiar. 4.15 Happy Days. 6.00 Lookin' Around. 6.30 Diff'rent Strokes. 7.30 Simon and Simon. 10.30 TVW News. 11.20 Postscript. 12.20 South-West Weather.

RADIO

9.30 am Sesame Street. 10.30 Feature Film: "Doublecousin," starring Donald Houston and Fay Compton. 11.40 HTV News. 12.30 pm The Undersea Adventure of Captain Nemo. 1.20 pm Paint Along with Nancy. 1.20 pm TSW News Headlines. 3.50 Survival. 5.15 Gus Honeyboy's Magic Broadcasts. 6.00 Diff'rent Strokes. 7.30 Simon and Simon. 10.30 TSW News. 11.20 The Streets of San Francisco. 12.20 pm Postscript. 12.20 South-West Weather.

SCOTTISH

10.00 am Wilderness Alive. 10.50 Singing Today. 11.15 It's a Musical.

(5) Stereo (when broadcast on VHF).

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RADIO

(stereo from midnight). 1.00 am Encore (S). 2.00-5.00 You and the Night and the Music (S).

RADIO 3

6.55 am Weather. 7.00 News. 7.05 Morning Concert (S). 8.00 News. 8.05 Morning Concert (continued). 8.05 News. 9.05 This Week's Composers (S). 10.00 British Piano Music (S). 11.00 English Songs (S). 12.10 pm Midday Concert part 1 (S). 1.00 News. 1.05 Six Continents. 1.25 Midday Concert part 2 (S). 2.00 Flute, Piano, Violin, Double Bass and Cello. 3.00 pm English Songs (S). 4.15 Cheltenham Festival 1982 (S). 4.45 News. 5.00 Mainly For Pleasure (S). 6.30 Jazz Today (S). 7.00 News. 8.00 From Our Own Correspondent. 9.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.05 Thirty-minute Theatre (S). 11.30

RADIO 4

8.00 am News Briefing. 8.10 Farming Week. 10.22 Shipping Forecast. 8.30 11.35 English Songs (S). 12.10 pm Midday Concert part 1 (S). 1.00 News. 1.05 Six Continents. 1.25 Midday Concert part 2 (S). 2.00 Flute, Piano, Violin, Double Bass and Cello. 3.00 pm English Songs (S). 4.15 Cheltenham Festival 1982 (S). 4.45 News. 5.00 Mainly For Pleasure (S). 6.30 Jazz Today (S). 7.00 News. 8.00 From Our Own Correspondent. 9.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.05 Thirty-minute Theatre (S). 11.30

RADIO 5

9.35 am Unstrung World. 10.00 "For the Love Of Art," starring Irene Handl and Wilfred Pickles. 11.25 Caravan. 11.30 Full Life: Jimi Cochrane Interview. 12.30 pm Lookin' Around Party. 1.00 News. 2.00 Dennis Healey. 2.30 TV News. 3.00 Looks Familiar. 5.15 Diff'rent Strokes. 7.30 Simon and Simon. 10.30 TSW News. 11.20 The Streets of San Francisco. 12.20 pm Postscript. 12.20 South-West Weather.

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RADIO 14

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RADIO 20

FINANCIAL TIMES

BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4, Telex: 8854871
Telephone: 01-2488000

Tuesday August 31 1982

The relics of Maoism

LIKE A great director before the first night Deng Xiaoping, the diminutive maestro of Chinese politics, is putting the finishing touches to the most important production of his remarkable career.

The curtain goes up tomorrow on the 12th congress of the Chinese Communist Party. It will be a great and glittering occasion and for Deng twice eclipsed and humiliated in the long march since liberation in 1949, and now nearing the end of active political life, it must go right on the night. For the past 30 years China has done little more than tear itself apart, wasting in the process endless reserves of talent, ingenuity and energy. For Deng this may be the last chance to set the country on a steady course for the next decade.

Proteges

Deng is above all a pragmatist who eschews grand designs. He has wisely chosen, with exceptional skill and guile, to outmanoeuvre the die-hard supporters of his great ideological opponent, Mao Tse Tung, since the latter's death in 1976. Frequently sacrificing policy for getting his people into the right jobs and ideology for practical gain, he has inched forward. In the process he has provided a badly needed dose of pragmatism into a political and economic system which for the past two decades or more has suffered from wild and unpredictable swings of the ideological pendulum.

Deng's proteges, premier Zhao Ziyang, party chairman Hu Yaobang and others, have done well enough to stay in the saddle over the past few years. But the feeling persists that, without Deng at the reins, they could still be unseated. That is why the congress has special importance.

Damage

A new constitution which promises to sweep away the final vestiges of Maoism is likely to be水的, diluting, at least in theory, the omnipotence of the Communist Party. Sweeping reforms of the leadership structure, some of which have already been put into effect, are likely to be endorsed. The Politbureau and the Central Committee may be reshaped to suit

How to make education work

THE VALUE of education is cultural and social as well as economic and so cannot be measured solely by its contribution in terms of material wealth. But as was pointed out by the National Institute of Economic and Social Research last week, spending on education by most developed countries has become so heavy that "It was necessary to specify which kinds of educational activity are economically profitable, and also to be aware of the economic costs of supporting other types of education which require to be justified on non-economic grounds."

In Britain, where the expenditure has risen from about 3.5 to 8 per cent of gross national product in 20 years, the visible outcomes are largely dismal. The advocates of the expansion expected it to provide at least two distinct and general benefits. One was greater social justice, particularly by extending the opportunity of higher education to many more children of semi-skilled and unskilled workers.

The other main benefit was directly economic. It was thought that by giving more education to young people before they began work we would ensure higher national productivity and living standards for all.

Neither expectation has been fulfilled. Families of semi-skilled and unskilled workers account for three-fifths or more of the population. But their children still constitute only about a quarter of students in higher education. The failure of the economic hope is plain. While the average time spent in full-time education remains lower in Britain than in the U.S., our average is if anything higher than that of the West Germans.

Resources

In the words of the National Institute's review: "A lack of total resources committed to education does not therefore appear to be a reason for Britain's low productivity or low growth in productivity... The directions in which those resources have been committed must therefore come under scrutiny."

In seeking more economically profitable directions of investment, Britain should look further at the example of West Germany. Although the average time spent by its citizens in conventional classroom studies is relatively modest, Germany far exceeds Britain in the investment of money and social esteem

the pragmatists and to oust the ideological die-hards.

The all-powerful post of party chairman may be abolished. The practical significance of such a move remains to be seen, but its symbolism is of enormous importance. Mao still used this position to establish himself as a demigod for 27 years, inflicting, as he became older and more senile, appalling damage through a combination of mystique and patronage on a country still struggling with poverty, residual feudalism and the dead hand of the Communist Party.

Much of what is emerging now may be cosmetic. Deng is certainly no liberal. China is likely to remain a totalitarian state in the grip of a party which frowns on individual initiative. The leadership changes may not make any real difference. Deng's strategy pushing ahead with change also carries with it enormous risks since he seems on the point of launching a major purge of the party itself at all levels.

Contradictions

Some of his reforms have been bitterly contested already. The renewed emphasis on heavy industry, a clampdown on contact with foreigners, growing attacks on the "evil influence" of western values brought to China by the opening up of the economy, and the return to the sterile authority of earlier years in culture and education are merely some examples. More worrying for the outside world, which wishes to trade with China and entice it into a more comfortable working relationship, has been the ferocity of Peking's opposition to the U.S. administration's admitedly inept handling of the Taiwan issue.

Three decades after the Communists took power China has yet to resolve the two fundamental contradictions which have determined its erratic progress so far. The first is how to achieve material success without sacrificing ideological purity. The second is how to achieve that success without leaving it open to an invasion of foreign technology and alien Western values, which threaten its integrity as a great civilisation.

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BRITAIN'S BLACK BUSINESSMEN

Why it is harder to start a business if you are black

By Lisa Wood

MARK COOKE came to Britain in 1958. Today, aged 38, he is joint managing director of Tridata Micros, a Birmingham-based company which develops and markets business accounting software for use in micro-computers.

Tridata, now four years old, employs 12 people, has made a profit for the last two years and expects a turnover of £240,000 this year. All its employees are white, except one, and that is Jamaican-born Mr Cooke.

Justice Lewis, an RAF-trained telecommunications engineer and Anthony Hill, an accountant, set up Ebony Greeting Cards in 1978 with capital of £5,000. Since then Ebony, which specialises in designing and manufacturing greeting cards for the "black" market, has quadrupled its print run to 250,000 cards a year and extended its design range from six to 63.

The two men are examples of a rare phenomenon—successful black British businessmen. For while it is difficult for anyone, black or white, to start a business—particularly in the present economic climate—recent research suggests that would-be black entrepreneurs face particular problems.

Barclays Bank estimates, for example, that only about 3 per cent of blacks are self-employed in mainstream business compared with 13 per cent of Asians and 10 per cent of whites.

Most businesses run by blacks are in the service sector—such as TV and video or record shops, hairdressers, restaurants and construction. There are relatively few manufacturers.

Lord Scarman, in his report on the Brixton disorders last November, spelt out why it was important for society that West Indians were brought into the business community.

"The encouragement of black people to secure a real stake in their own community through business and the professions is of great importance if further social stability is to be secured," he said.

The message remains as relevant today: an increasing number of blacks, disproportionately affected by unemployment and fearing racial discrimination in seeking a job, are trying to establish small businesses.

They face two key problems: "access to commercial capital and management skills," according to a recent parliamentary select committee report on racial disadvantage.

Banks, the report said, vary widely in their lending attitudes to ethnic minorities. "Some managers appear to require an undue amount of

in training, particularly of the apprenticeship kind. As a result, young people there have their attention concentrated more extensively on the practical skills and importance of productive work.

It is unlikely to be pure coincidence that the different German approach to the preparation of young people for adult life has been associated with economic success. The case for shifting the emphasis of the British approach in the same direction is made stronger by the evident importance to this country's future of ability to exploit fully the applications of advanced technology.

The development of that ability requires young people to spend less time in learning by theory in classrooms and more in learning by doing in laboratories and school workshops and, for older pupils, by attachment to employing organisations.

Expenditure

Despite the academic profession's disparagement of the present Government for cutting expenditure on conventional education, the Government has done more than any of its recent predecessors to begin the necessary change.

Sir Keith Joseph, the Secretary for Education and Science, has accepted a degree of managerial responsibility for bringing the development of courses in universities and polytechnics into line with national social and economic policies; and he has initiated a £2m-a-year project to devise practical school curricula for children whose aptitudes and interests are in learning by doing. Other Ministers have been instrumental in expanding programmes for the development of training.

But they have unwisely neglected step which seems essential if Britain's approach to the preparation of children for adult life is to become successful. The step is to abolish the division of responsibility for education and for training between different Government departments and commissions.

Until responsibility for both is vested in a single ministry, there is little prospect of training being regarded—as it should be—as an indispensable part of education, rather than as an activity suited only to young people who have failed in academic studies and are destined for at best lowly occupations ever after.

As a result of stereotyping of West Indian entrepreneurs as a bad risk—a stereotype not supported by the experience of those banks who have made business loans to West Indians.

Setting aside the issue of racial discrimination, which is real but difficult to prove, there seem four basic reasons for these difficulties:

● Lack of collateral. Blacks, concentrated in lower-paid unskilled jobs, find it difficult to accumulate start-up capital. A higher proportion of blacks than white or brown people live in council accommodation and are therefore unable to offer the deeds of a house as collateral.

● Lack of business experience. Mr Martin Kazuku, a Guyanese-born business consultant, says in a report on ethnic enterprises in Hackney, east London, that because blacks have fewer education and employment opportunities than whites "the requisite managerial experience necessary for running a business efficiently is almost nonexistent." He estimates that up to 50 per cent of all business failures, black or white, are due to "poor management."

In contrast, the UK Asian community has a substantial middle-class professional element and many families have traditional involvement in business. There are also several Asian banks with branches in the UK.

● Social attitudes formed by the experience of immigration to the UK. Many blacks point to the success of West Indian immigrants to the U.S. But Mr Tony Wade, chairman of the

250-odd strong UK-Caribbean Chamber of Commerce, points out that American immigrants "had a different approach and attitude to us, knowing they would have to fight for opportunities."

"We were brought up to think of Britain as the mother country and believed that if we worked industriously we would share the benefits. That did not happen."

Contrast this attitude with that of Mr Santokh Singh Bhambra who, with only £50 in his pocket, was forced to flee Uganda 10 years ago this month. A chartered engineer by profession he was refused a loan by a Birmingham banker, despite having his Ugandan bank statements which showed the profitability of his former business.

Mr Bhambra, now owner of an electrical shop in Handsworth, Birmingham, did ultimately get a loan through persistence. "We used to think of this treatment," he says. "Our parents told us stories about hardships when they went to Uganda. We knew life would be hard and were prepared."

● Communication difficulties between a white bank manager and a black client. The story of Ms Rosemary Arnold, a middle class black South African, is an example.

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● Communication difficulties during a white bank manager and a black client. The story of Ms Rosemary Arnold, a middle class black South African, is an example.

"Talking to a senior banker



Mr Abdul Shamji (left), chairman of the Gomba group of companies and Mr Justice Lewis, managing director of Ebony Greeting Cards.

in Sloane Square about a restaurant in Brixton is an unbelievable experience," she says. "He could not understand why anybody should want to open a restaurant there."

Helped by Lents, she secured a loan from the Industrial and Commercial Finance Corporation (ICFC), as well as receiving strong financial support from her local branch of Lloyds Bank.

The banks are responding to such criticism. All four clearing banks have appointed business advisors with special responsibility for ethnic minorities during the past year.

Mr John Ridgeway, the appointed of Barclays Bank, is a former deputy manager in London's East End. He spends much of his time visiting his bank's branches and talking with customers often on their own premises. "All banks," he says, "have to improve communications. Very often I find a bank manager with a genuine desire to know asking questions

that seem aggressive to black customers and the barriers go identifying blacks with manager potential.

Blacks, he says, feel that if there were black bank managers customers would be more trusting in giving full information about their circumstances.

"It has been suggested that black managers from Barclays branches in the Caribbean offer opportunities in the UK. But they would not necessarily understand British business problems. Anyway, why should a black manager want to go to Brixton, not Knightsbridge?"

Mr Ridgeway says that black managers will emerge in time through the bank's career structure. Positive discrimination for training is allowed in the Race Relations Act but he argues that accelerated training for blacks could cause resentment among white employees.

None of the clearing banks admit to monitoring their staff by ethnic origin, but it is understood that all are busy

identifying new development to help black people present their business plans to the banks. The growth of business consultancies staffed by blacks.

Mr Jonathan Emanuwa, a Nigerian-born 29-year-old with an MA in business administration, set up New World Business Consultancy in Camberwell, south London last year with the aid of a £40,000 grant from the Greater London Council, and some funding from the banks and Waites, the builders.

Mr Emanuwa, a forceful but diplomatic man, has an all-black team of five. "There are people," he says, "who feel greater confidence in approaching us. If a Jamaican goes in to see a bank manager and speaks patois he is disadvantaged from the word go."

Most of New World's clients wanting loans need £5,000-10,000. About 40 per cent for whom it tries to raise money are successful. Mr Emanuwa thinks more of them deserve financial help and wants to see the banks, or Government, set up a special fund to aid black business. The Government, he argues, has regional policies to aid disadvantaged regions—so why not special financial packages to aid disadvantaged people?

Whether or not specific funds should be earmarked by the Government for black start-up capital is politically controversial. The present Government argues that to do so would antagonise sections of the white community and might not be very productive anyway.

Many believe the most crucial need is management advice. Mr Cooke, for example, had 16 years' experience in the computer industry before setting up his own business. Mr Lewis, of Ebony Greeting Cards, says his success is due to a combination of "business expertise and dedication."

PARK LANE EMPIRE OF AN AMIN REFUGEE

ABDUL SHAMJI (pictured above) has built up a trading and industrial empire of impressive size since he fled from Idi Amin's Uganda 10 years ago.

The 49-year-old businessman of Gujarati descent now directs his hotel, trading, handbag-making and vehicle assembly interests from offices in Park Lane. His Goma UK group of companies has an annual turnover of around £10m, though Mr Shamji is coy about revealing profit. Group companies employ more than 500 people.

Mr Shamji was no business newcomer when he came to Britain. He was forced to leave behind him a sizeable company engaged in car assembly, construction and hotels.

His first deal in Britain was

arranging a shipment of Johnnie Walker whisky and leather handbags to Zaire.

From there he went into house repairs and second-hand car sales—anything which came to mind. He increased his export business, shipping clothing, cutlery, crockery to Kenya and Nigeria. Watches from Hong Kong were sold to Iran. With no knowledge of running a shipping line and unable to raise finance in Britain, Mr Shamji negotiated finance in India and arranged for an Indian shipyard to build six ships in 1974.

After forming a joint venture with a subsidiary of the Common Brothers line of Newcastle-upon-Tyne, he sold his interest in the successful shipping business to a Dutch company shortly afterwards.

Since then he has featured prominently in rescuing failing companies. In 1976 he took over a Blackburn company making leather handbags.

In March of last year Mr Shamji got back into the automobile business. He paid a seven-figure sum for the Scottish maker of four-wheel drive vehicles, Stonefield.

Stonefield's Ayrshire factory had been largely paid for by the Scottish Development Agency. It went into receivership when the agency decided further development would be too expensive.

Despite protracted wranglings with the suppliers of tools, stocks and engineering drawings Stonefield has since produced more trucks under Gomba than it did in the previous four years together,

claims Mr Shamji, who believes he can solve the problems of British industry.

Mr Shamji's political views are clear. He has entertained Mrs Thatcher to dinner at his home and the Prime Minister poses in the cab of a Stonefield truck in a picture hanging above his desk.

He denies ever encountering racial discrimination during his time in Britain but concedes the extended Asian family system allows a rapid accumulation of wealth and may provoke jealousy. British executives outnumber Asians 3 to 1 in the top levels of the Gomba organisation but Mr Shamji says he has helped fellow exiles when he has been in a position to do so.

Charles Batchelor

Men & Matters

Coping together

Fashion to fruit machines group Cope Allman is beginning to think about expansion again after a couple of lean years.

In order to concentrate on such strategic, longer-term planning, chairman and chief executive Louis Mansou is splitting the dual role he has filled for the past nine years.

Having a week ago referred to the group as entering its final phase, he tells me, "By the end of the year, the turn around of our activities should be complete and it seemed a good time to make the change."

In October, Mansou will hand over day-to-day

FINANCIAL TIMES SURVEY

Tuesday August 31, 1982

Malaysia

Under its new and controversial Prime Minister, Dr Mahathir Mohamad, Malaysia is becoming ever-more politically confident both at home and abroad. But with economic stormclouds gathering, this fresh self-confidence is about to undergo severe test. The Government has above all to reconcile the demands of an increasingly sophisticated electorate with the harsh facts of recession

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TODAY, TWENTY-FIVE YEARS LATER, MALAYSIA AND SIME DARBY RECALL WITH PRIDE TUNKU ABDUL RAHMAN'S PROCLAMATION OF INDEPENDENCE ON 31ST AUGUST 1957

"MERDEKA!"

The spirit which Tunku Abdul Rahman kindled in the nation in that historic moment twenty-five years ago with the cry of "Merdeka" lives on today in the hearts and minds of the people of Malaysia.

Great progress has been made in Malaysia since independence and Sime Darby is proud to have been part of this dynamic period of growth and development. There is much still to be done however and Sime Darby looks forward to the future with confidence inspired and strengthened by Tunku Abdul Rahman's call for...

"Merdeka!"

Sime
Darby



MALAYSIA II

New regime marks end of an era

THE LOWERING of Britain's flag over Malaysia 25 years ago was a gentlemanly affair. The Alliance leadership which stepped into the colonial administration's shoes was conservative, English-educated, upper middle class and not keen to see radical social or economic change.

It has taken all of those 25 years, and the rise to power of Dr Mahathir Mohamad, to bring an end to all that.

From university in Singapore and a medical career in Malaysia's poor north-eastern state of Kedah, Dr Mahathir has little in common with his predecessors. After a year at the helm his administration has brought about a revolution in style and there can be little doubt that there can be substance lie ahead.

During the elections in April which gave Dr Mahathir and his deputy Datuk Musa Hitam (together called the "2-Ms" government) a larger parliamentary majority than any previous administration, whole panoply of new men were promoted through the party ranks as members of the "old guard" were unceremoniously pushed aside.

On a campaign slogan of "clean, efficient and trustworthy" government Dr Mahathir has put an electric shock through the country's bureaucracy. Corruption may not yet have been rooted out but the corrupt now have to be more discreet than ever in the past.

What was left of Malaysia's umbilical cord to Britain was symbolically severed in October last year with a "directive" that government departments should not buy British where an alternative exists. A "Look East" policy, urging Malaysians to find inspiration in the work ethics and work methods of the Japanese and South Koreans, followed hot on the heels of the directive.

In his impatience for change, however, Dr Mahathir has paid little open attention to the immense achievements of his country over 25 years of independence.

In 1957 Malaysia was a classic example of a colonial plantation economy. It was dominated by rubber and tin, as it had been since the turn of the century. Together these two products accounted for 80 per cent of the country's exports.

By last year, with a Gross Domestic Product that had grown tenfold to over M\$28bn, rubber and tin were just as important in dollar terms but had long been overtaken by manufactures, along with oil and gas, as leading export earners. New commodities like palm oil and cocoa had been introduced, broadening the country's agricultural base.

Today Malaysia leads the world in five export products. It provides 56 per cent of the world's palm oil, 42 per cent of its rubber and pepper, 37 per

cent of its tropical hardwoods and 32 per cent of its tin.

With its economy still growing at 6 per cent, inflation in single figures and unemployment barely noticeable, Malaysia is a country where absolute poverty has virtually disappeared. No surprise then that it has one of the best credit ratings in the developing world.

While Britain has been blamed for many colonial sins, at least some of Malaysia's progress of the past 25 years is thanks to foundations laid by the British. Plantations had been well run and a good infrastructure of education and communications had been laid. A solid administrative structure was in place, as were stable political institutions.

Despite an auspicious beginning there were times in the 1960s when stability in Malaysia—and in South-East Asia generally—was in serious doubt.

Establishment of the Malaysian Federation in 1963 stirred up a hornet's nest of regional rivalries, in which President Sukarno of Indonesia vied for regional domination through a policy of military "confrontation" and the Philippines made claims to part of the federation. These have still not been formally abandoned today. Singapore broke away under Lee Kuan Yew in August 1965.

To make matters worse the Vietnam war raged just 500 miles away at a time when Britain, which had until then

provided Malaysia's defence umbrella, was drawing its forces back west of Suez.

A turbulent and xenophobic leadership in Peking fuelled Communist movements operating in the dense jungles of Malaysia and southern Thailand.

While Tan Sri Ghazali Shafee, Malaysia's Foreign Minister, may talk today of the threat to the region of the current conflict in Indochina, the stability of the region is profound by comparison with those unsettled days. Much of the credit for this stability should go to Malaysia and its regional partners in the Association of South-East Asian Nations (ASEAN)—an idea first mooted to a sceptical world by Indonesia in 1967.

Inside Malaysia the unrelenting theme of political activity has been the country's volatile racial mix—a problem unwittingly created by the British colonial administration.

A shocking awareness of racial conflict was thrust on the then government in 1969 when in the wake of election victory

celebrations by opposition Chinese parties large numbers of the country's impoverished Malay population ran amok.

The bloodbath that followed

has provided the focus for political activity and economic policies ever since. The New Economic Policy (NEP) laid down in 1970 is a 20-year programme aimed at eliminating the gap between Malaysia's comparatively affluent Chinese minority and the poor rural Malay majority.

Fear of renewed racial conflict has caused successive administrations in Malaysia to cling to a "softly softly" approach in all areas of policy.

Perhaps the most profound revolution to hit the country since Dr Mahathir became Prime Minister in July last year is his abandonment of this approach.

MAIN POLITICAL PARTIES

UMNO: The United Malays National Organisation, supported by the Malay community and the dominant party in the ruling coalition. The leader of UMNO automatically becomes Prime Minister.

MCA: The Malaysian Chinese Association: the "establishment" Chinese political party usually closely associated with

the business community.

DAP: The Democratic Action Party. Claims to be a multiracial party and has some non-Chinese members but attracts mainly middle class and poorer Chinese voters.

PI (sometimes known as PAS): Parti Islam: Fundamentalist Moslem party, once part of the ruling coalition, advocating stricter Islamisation in Malaysia.

World Recession: "We are figuring out how to tackle the problem and the most important move so far is to cut down on our expenditure, to reduce government spending, to live within our means and to be more productive. Although the recession will continue to have a very deleterious effect on the economy it will not be as bad as most other countries."—Dr Mahathir Mohamad, Prime Minister

While not openly admitting the recession seen as being the result of ill-conceived and irresponsible economic management Dr Mahathir certainly does not believe in being gentle. If he sees his approach involving greater risks, then he certainly does not admit as much.

One of the first communities to feel Dr Mahathir's shock treatment has been the British business community. Keen to provide fresh impetus to the NEP and irritated at the "overly negative" attitude of British companies to the dilution of foreign control—particularly in the sensitive plantations sector—the Prime Minister has "declared war" on the UK.

Alongside the directive not to buy British goods wherever possible, the Malaysian Government has sponsored a huge sharebuying operation to bring British-owned plantation companies under Malaysian control. The effort has succeeded, though it may have cost the Government about M\$3bn. "We are prepared to pay the price," says Dr Mahathir.

This heavy purchasing programme could hardly come at a worse time for the economy. World recession is at last beginning to take its toll inside Malaysia, with all commodity prices at record lows. About M\$4bn is in the process of being cut from this year's budget and even sterner measures will be needed if the recession continues.

The damage being done by the recession seen as being the result of ill-conceived and irresponsible economic management Dr Mahathir certainly does not believe in being gentle. If he sees his approach involving greater risks, then he certainly does not admit as much.

In future, in an effort to improve the economy, greater attention is likely to be given to building up the country's own industrial base. Its own market of 14m people may be small but it is increasingly affluent. Moreover, put into the context of the fast-growing ASEAN region even the problem of a small market may not become serious.

After a decade of remarkable stability in the region Dr Mahathir and his team are increasingly concerned that world powers like the U.S. have come to take this stability for granted.

What has been forgotten, Dr Mahathir notes, is that this stability is based on the premise of rapid economic growth. Lose the growth momentum and such stability can no longer be taken for granted even in a country as apparently sound as Malaysia. Rising economic expectations, resurgent Islamic fundamentalism and the constant threat of Communist insurgency mean that the industrialised West neglects this region at its peril.

David Dodwell

MAIN RACIAL GROUPS

Bumiputras: Literally "sons of the soil," usually defined as the "Malay races"; these form the majority of Malaysians (around 52 per cent) and are made up of Moslem Malays on Peninsular Malaysia and Malays and indigenous tribal people in the eastern states of Sabah and Sarawak.

Indians: Make up around 10 per cent of the population of Peninsular Malaysia.

| | |
|---------|-------|
| Chinese | 3.920 |
| Indians | 1.186 |
| Others | 0.802 |
| Sarawak | 1.245 |
| Malays | 6.120 |
| Sabah | 1.052 |

Total population 1980 (m) 13.600

Economy set to weather bad spell

PROSPECTS for the Malaysian economy under the cloud of world recession are far from bright. Last year saw the first trade deficit in the country's history as commodity prices plunged to record lows and Malaysia's terms of trade deteriorated by 17 per cent. The Government has called for austerities and is to make deep cuts in spending, mainly on defence.

But this deterioration should not be allowed to obscure the very real achievement of the past 25 years. Economic growth has averaged more than 8 per cent over the past decade. Gross Domestic Product (GDP) has more than quadrupled to M\$28bn.

Even more significant, from a classic colonial plantation economy in 1960 relying on rubber for 62 per cent of its export earnings and tin for a further 17 per cent the country has diversified strongly into manufacturing—which now accounts for almost 20 per cent of exports—and into new commodities like palm oil (9 per cent of exports) and timber (14 per cent of exports).

The discovery of oil and gas has also made a considerable difference. Oil exports now account for almost 29 per cent of export earnings.

It is a measure of the country's resilience that economic growth for the present financial year is still targeted for 6 per cent and that strong counter-cyclical policies are to be maintained to keep the worst effects of the recession at bay.

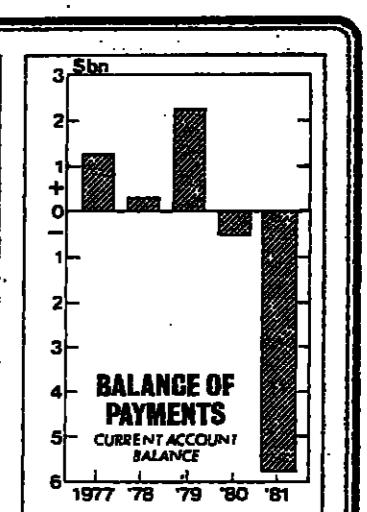
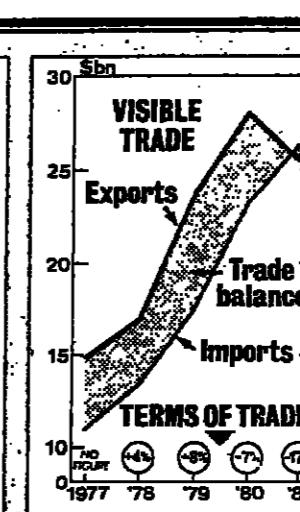
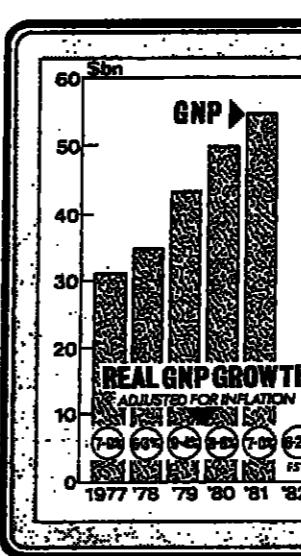
Officials also emphasise that the recent call for austerities—about M\$4bn is to be cut from Government spending this year—is a precaution rather than a crisis measure.

"In fact the recession may prove to be a blessing in disguise," said one senior Government official. "The economy has been expanding relentlessly since independence and it may be useful to stop and take stock. When you are flush you may not be allocating resources in the best way. This will force us to economise."

Sanguine as officials may still be, the country's balance of payments problems are severe. Following a visible trade surplus of over M\$10bn in 1979 and of almost M\$10bn in 1980, Malaysia last year suffered a deficit for the first time in its history—of M\$800m.

Current indications imply 1982 will be even worse. The visible trade deficit for the first quarter of the year was M\$460m as export earnings fell a further 8.9 per cent in annualised terms.

Tunku Razaleigh Hamzah, the Finance Minister, forecasts a trade deficit for the year of over M\$2bn. Added to the usual deficit on services this is likely to lead to a current



account deficit of more than M\$800m.

Even after the expected strong inflows of capital the country is likely to face an overall balance of payments deficit of M\$2bn, forcing further drawings from reserves. In the three months to March last, reserves shrank by M\$1.3bn to M\$8.58bn, covering less than 3.9 months of imports. A year ago reserves provided 5.3 months of import export earnings.

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Despite current adversities Malaysia can be confident that any upturn in the world economy will have an immediate impact on its own economy.

Over the past three years all Western industrial manufacturers have cut stocks to a minimum. An upturn in world trade will not only have an immediate and strong impact on prices but will prompt a surge in sales.

Having seen predictions of an upturn constantly revised over the past two years, Malaysia and for one is deeply sceptical about assurances of an upturn by the end of 1982. Tunku Razaleigh Hamzah, the Finance Minister, forecasts a trade deficit for the year of over M\$2bn. Added to the usual deficit on services this is likely to lead to a current

Malaysia into a new and third phase in its post-colonial economic development.

In the early years after independence priority was given to import substitution. But this aim was soon modified, mainly because the smallness of the local market and the comparative poverty of the population made economies of scale impossible.

In the second phase emphasis has been put on export promotion. For a country like Malaysia this has brought tremendous rewards. But the recession now gripping the West has underlined to the Government in Kuala Lumpur that this preoccupation with exports has made the country over-dependent on the fortunes—and the economic whims—of governments over which it has no control.

In addition, declining confidence in international commodity agreements, which are seen as being manipulated in the interests of consumer countries, has convinced many that it is dangerous to rely in future on raw commodity exports.

So Malaysia will in future be re-examining the value of import substitution. Its domestic market may be small but if taken as part of the ASEAN region then it may be viable. Malaysians are also much wealthier and have stronger material ambitions.

There is likely to be a strong drive to broaden the country's manufacturing base. Industries based on its oil and gas resources are already being set up. Agro-processing industries, particularly in timber and rubber, will be built up despite resistance from countries in the industrial West.

There are pressures to achieve targets set by the new economic policy. This policy laid down in 1970, is now well past the half-way mark and

there is some concern that the aim of transferring 30 per cent of the country's corporate wealth to the indigenous population by 1990 may not be met without a fresh impetus.

For this reason the Government last year set about buying out major foreign plantation interests in the country. The short-term cost was very high—perhaps M\$800m—but the Government is confident that long-term benefits will come from bringing these companies under domestic control.

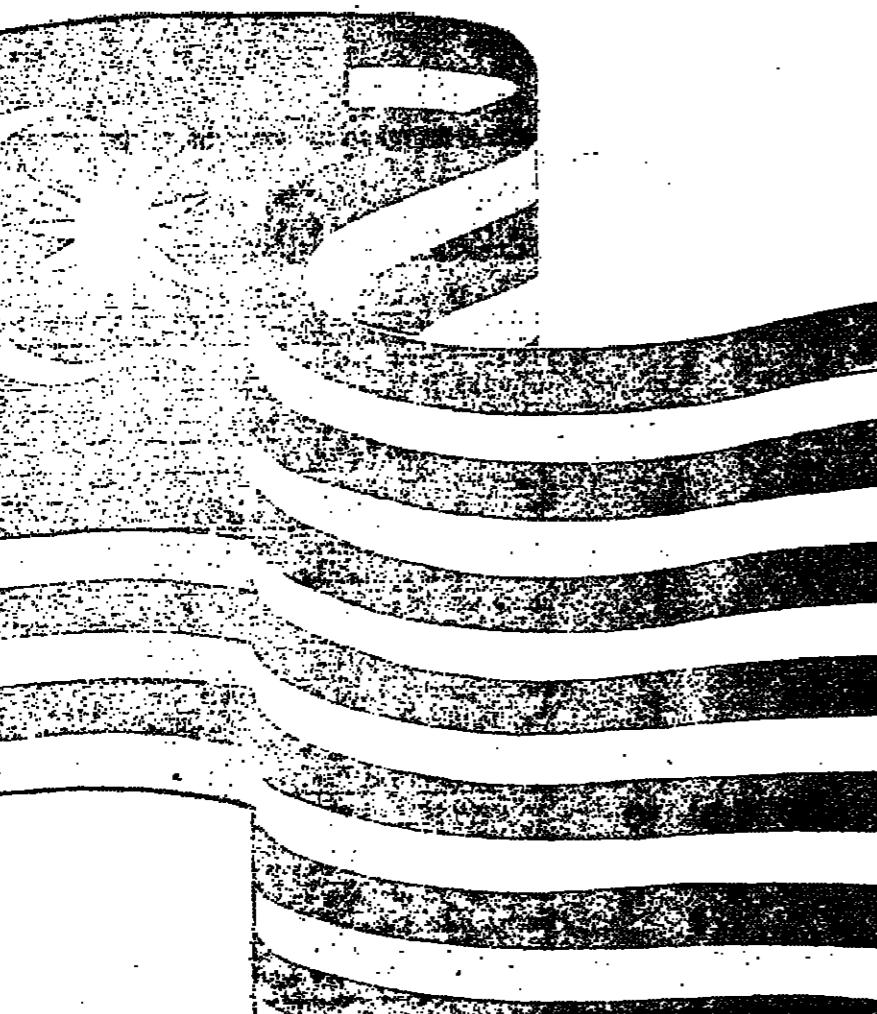
Unhappily, this heavy purchasing programme coincided with the present export slump and has at least in the short term added to the country's balance of payments problems.

All of these changes call for maximum effort from the country's still largely unskilled workforce. They explain why Dr Mahathir Mohamad, the Prime Minister, has called for the people to "Look East"—to Japan and South Korea.

Since Japan is by far the country's biggest trade partner and its second largest investor (after Singapore), this policy might simply be seen as the Government realising on which side its bread is buttered. But at the same time much can be gained from instilling the Japanese work ethic in Malaysia's rather happy-go-lucky workforce and by adopting Japan's extremely successful work methods.

Recession has slowed growth in Malaysia and is certain to cause short-term problems. But in the longer term the country has the ingredients for strong growth. Unlike most countries in the developing world it has all the resources it needs to generate its own development. With natural gas about to come on stream next year the industrialisation process is perhaps just about to begin.

D. D.



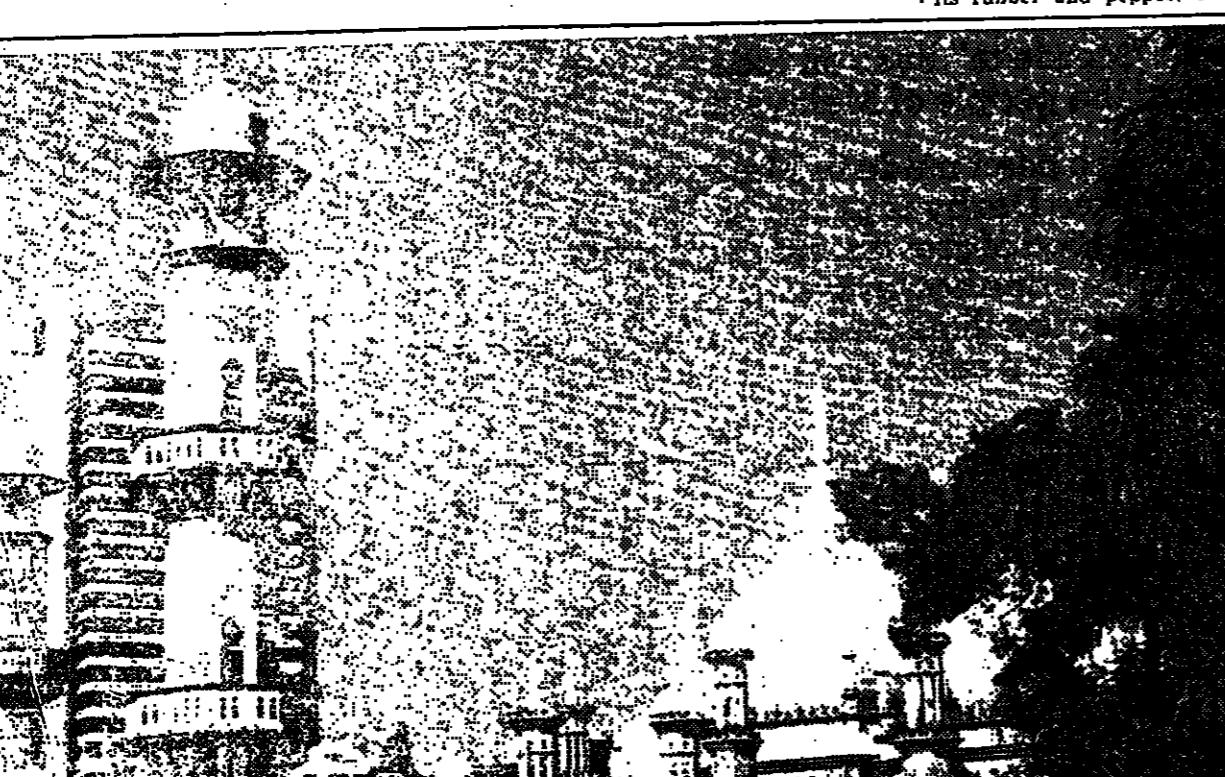
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Politics

Sweeping victory at the polls last April has given Dr. Mahathir Mohamad and his administration a powerful platform to initiate new policies. This page reviews the political scene and profiles some leading members of the new government team

Strong backing from electorate

THE NEW administration of Dr Mahathir Mohamad went to the polls in April this year to win a mandate from the country's 14m people — and came away with the most resounding success ever scored in Malaysia's 25-year history.

The Government's national coalition, dominated by the United Malays National Organisation (UMNO), won 144 of the federal assembly's 165 seats — 12 of them uncontested if won backing from over 60 per cent of the voters.

The victory had never been in doubt but the size of the coalition's majority was seen as an emphatic support for Dr Mahathir's call for "clean, efficient and trustworthy" government.

Gains made by the coalition's Chinese party, the Malaysian Chinese Association (MCA) were also seen as providing endorsement for the party's appeal to represent the country's Chinese community, which makes up 38 per cent of the population.

Despite talk both before and after the election of Dr Mahathir's Government ringing in numerous changes (the phrase has caught on because the Prime Minister and his deputy, Datuk Musa Hitam) the new government has so far brought more a change of style than of substance.

Politics in Malaysia remain in essence communal politics. The dynamic for political activity is the delicate balance between the country's racial groups. Political parties are still after 25 years communal parties rather than class parties.

At the same time, while elections provide an interesting focus on the country's political personality, they are not watershed occasions as they are in other democratic countries. As one leading academic studying Malaysian politics recently explained: "Real political struggle in Malaysia takes place

in parties between elections rather than between parties in elections."

Between elections the component parties of the coalition normally undergo fierce power struggles as factions vie for control of the party machine and positions of party leadership.

This is particularly the case inside UMNO, the country's dominant party and the leading coalition partner. Leadership of UMNO carries with it national prime ministerial and control of the Government's extensive machinery of patronage.

For all that, elections perform a valuable function in Malaysian politics, mainly allowing the Prime Minister to reshuffle his party and his government.

This April's election was no exception. Dr Mahathir's re-allocation of seats among coalition parties (condition rules forbid contests between member parties) and between individuals and factions within parties was extensive.

Inside UMNO, for example, only 38 of the party's 69 federal members were renominated. At the state government level 106 of the 198 sitting members were replaced.

For Dr Mahathir this reshuffle was more than usually important. It allowed him in the wake of the election to bring in phalanxes of "new style" leaders, university-educated technocrats, untainted by the corruption implicit in local patronage machines and above all loyal to him and the federal government.

State governments, which have considerable autonomous powers and have in the past been a thorn in the side of federal governments, are likely to be much more compliant to Dr Mahathir's needs than those in place before the April elections.

Two exceptions are likely to be the governments in Malaysia's eastern states of Sabah and Sarawak. Separated from the peninsula by 1,000 miles of the South China Sea, leaders there have always tended to plough their own furrows.

In Sabah fierce rivalry between the ruling Berjaya party and the United Sabah National Organisation (USNO) overrode the co-operation that should be implicit between two parties that are both members of the national coalition.

When Dr Mahathir allowed USNO to contest five federal seats in the state, Datuk Harris Saleh, the Berjaya leader, flouted coalition rules by asking five of his members to "resign and stand against the USNO candidates as 'independents'."

The Chinese-backed DAP lost 10 of the 18 Federal seats it had won in the 1978 election but its voter support fell by bare 1 per cent to 20.3 per cent.

Similarly, the opposition Parti Islam which at its name would imply wins backing from the more conservative Malay voters concentrated in the four states of Kelantan, Trengganu, Kedah and Perlis, managed to win just five Federal seats. Its support nationwide is just 14.5 per cent but it won almost 47 per cent of the vote in Kelantan and over 41 per cent in Trengganu. Even in Kedah, the home state of the Prime Minister, it won the support of over 32 per cent of the electorate.

While Dr Mahathir can draw comfort from the parliamentary majority he has won, it must be a matter of concern that such a large percentage of the population remains impervious to the appeal of coalition parties despite the weight of the pro-patronage machine mobilised during elections and despite the amount of patronage which supports for the coalition can at their disposal.

Even where opposition support is strong — particularly in the Chinese-dominated urban areas — constituency boundaries

are drawn in a way that greatly hinders chances of opposition success. For example, the densely Chinese-populated constituency of Petaling Jaya in Selangor has an electoral roll of almost 115,000. The peninsula's smallest constituency — inevitably it is in a rural Malay community — has just over 24,000 votes.

Given this weighting in favour of the Government the consistent support for opposition parties is surprising. Even in the latest polls, where the result would imply a strong swing to the Government coalition if measured in terms of seats won, opposition support stayed remarkably solid.

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David Dodwell



PROFILE: DR MAHATHIR MOHAMAD

Leader with strong ideas

Mahathir's past year in office as Malaysia's fourth Prime Minister has brought about a change in style and direction and heightened the expectations of the population.

He has shaken many in establishment. Civil servants may still grumble but they, nevertheless, have to click in for work, wear name tags across their chests and declare their assets.

The generals have been told, and have accepted gracefully, that they have to do with less men and less expensive weapons systems under the present difficult period.

In the political and corporate

spheres Dr Mahathir and his deputy, Datuk Musa, have planted their men at strategic positions. They have succeeded in chipping away the once paramount influence of Tengku Razaleigh, the Finance Minister, in the economy.

But for all that the Mahathir regime remains fragile, uninstitutionalised. His major policies have not been severely tested as to their worth and durability.

His "Look East" policy has generally been met by confused perplexity among planners, not to mention chagrin among Malay intellectuals.

Dr Mahathir wants his rule to provide the launching pad for Malaysia to leap into the front ranks of the nations. Only time will tell whether Malaysians can live up to his expectations of them.

Wong Sulong



PROFILE: ANWAR IBRAHIM

Guiding hand for Islam's role

PRIME MINISTER Dr Mahathir Mohamad pulled off a notable pre-election coup earlier this year when he persuaded the charismatic Moslem intellectual, 35-year-old Anwar Ibrahim, to join the United Malays National Organisation (UMNO), the principal Malay element in the ruling National Front coalition. Anwar headed the highly respected Moslem youth movement, Abim, and brought with him a solid wedge of reputable Islamic support which might otherwise have gone to the fundamentalist Moslem Party, Parti Islam (PI).

Anwar first came to prominence following the May 13 riots in 1969 which threatened to split Malaysia along racial lines. He was a sufficiently popular student leader at the University of Malaya to attract the attention of the security authorities; he was detained under the Internal Security Act for consistently acting "in a manner prejudicial to the security of Malaysia . . . with the ultimate aim of overthrowing the legally constituted government of Malaysia by unconstitutional and revolutionary means."

While suffering a decline — Anwar soundly beat his PI opponent in the election — the more theocratic party won enough seats in the eastern states to maintain a credible presence there. The Islamic missionary groups, moreover, continue to make headway, particularly among young well-educated Malays.

Kathryn Davies

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PROFILE: ISMAIL ALI

Investment head



MOST central bank governors, after 20 years in the post, would be glad to retire with honour for a well-earned rest. But not Ismail Ali.

He did get his honours — a knighthood (corresponding to a peerage).

But after putting in his own protege at the Malaysian Central Bank in 1980 he went on to head the Government's investment agency, Permodalan Nasional. Today the 63-year-old Cambridge-educated Tun Ismail is undisputedly Malaysia's most influential corporate figure.

At the central bank Tun Ismail keeps his Permodalan tiny by comparison with those of coalition candidates, who not only tended to get the backing of big business but also often found the Government machine at their disposal.

Even where opposition support is strong — particularly in the Chinese-dominated urban areas — constituency boundaries

W. S.

PROFILE: ERIC CHIA

Top industrialist



ERIC CHIA is perhaps the best illustration of what Dr Mahathir means by "looking East."

"There is nothing mysterious about the Japanese management and work style," says Eric Chia, a burly six-footer. "The Japanese work hard and are more human in their approach. With certain modifications we can do it here."

At United Motor Works, where he is chief executive, this Japanese style is being put into action. Decisions are reached by consensus, first among the five executive directors, then later with the operational directors before the department heads and supervisors are finally brought in. This tends to slow down decision-making but the message gets across effectively.

UMW spends a lot of money and time on forging closer links among its 8,000 employees. Free Malay and Japanese classes as

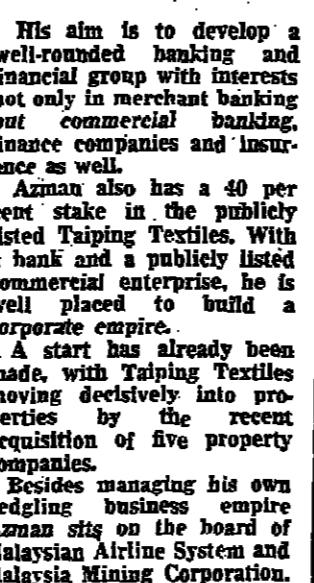
well as lessons in cooking and flower arrangement are provided and employees sing a company song like their fellows in Japan.

UMW has begun as a bicycle and car spare parts shop in Singapore by Eric's father 50 years ago, but it was Eric Chia, operating from Malaysia, that built UMW into a billion-ringgit business today.

W. S.

PROFILE: AZMAN HASHIM

Corporate banker



AFTER MORE than 20 years as a banker it is very exciting to own a bank," says 43-year-old Azman Hashim, who paid Bumiputras last April for 55 per cent of Arab Malaysian Development Bank. He has subsequently induced Malek, former director of corporate planning at Sime Darby, to be managing director.

The two will make a formidable team. They represent the emerging breed of young, dynamic bumiputras — with solid backgrounds who are reshaping the Malaysian corporate scene.

Azman joined the Malaysian Central Bank in

1960 after returning with an accountancy degree from Australia. He left four years later to start his own practice and joined Maybank's board in 1966. He was its executive director until last year. Malek was deputy secretary general at the Treasury before he joined the private sector.

"Arab Malaysia is Malaysia's biggest merchant bank but we want to make it the best as well," says Azman. He sees many opportunities for merchant banking since Malaysia is growing rapidly and the financial market is beginning to mature.

W. S.

Foreign Policy

Some shifts but commitment to Asean group stays firm

MALAYSIA'S foreign policy has had a thorough shake-down over a year of Dr Mahathir's government. New initiatives have been taken aimed at resolving the conflict in Indochina, a chill has fallen over official relations with Britain and in attitudes towards the role of the Commonwealth. A militancy has arisen over international commodity agreements and a "Look East" policy has been earnestly espoused.

Yet for all the appearance of sudden breaks with past policies Malaysia's overriding and distinctive foreign policy priority remains unchanged. It was first articulated by Tunk Razak in 1971, who called in vain on ASEAN to make a "declaration of neutralisation of South-East Asia".

More recently Malaysian governments have called for South-East Asia to be made a "zone of peace, freedom and neutrality" with Super-Power influence kept to a minimum.

The concept has never formally been adopted but the spirit of Malaysia's call has been shared by its regional partners and substantial progress has been made.

While genuine concern remains over the struggle for power in Kampuchea, a level of calm and stability has been achieved in the region that has been seemed inconceivable in the 1960s.

At that time the Vietnam war shook the region. The fear of Communist infiltration and insurrection, encouraged by an extreme and xenophobic regime in Peking, was acute.

From the south President Sukarno of Indonesia threatened neighbours with "confrontation". The Philippines were making territorial claims on parts of the embryonic Federation of Malaysia. Even closer to home Lee Kuan Yew in Singapore was following a political path which made break-up with the tiny island state inevitable.

The Association of South-East Asian

Nations (ASEAN), first mooted in 1967 by Indonesia in the wake of President Sukarno's overthrow, has played a primary role over the past 15 years in pouring oil on the region's troubled waters. As it has grown in maturity it has also been instrumental in keeping Super-Power contention to a minimum.

Malaysia's main foreign policy concern today is Indochina—or more specifically the presence in Kampuchea of the Vietnamese-installed Heng Samrin government and Vietnam's 180,000-strong occupation force in the country.

For three years the ASEAN member states have led the diplomatic efforts to end the conflict in Kampuchea. At first this joint effort played an important part in strengthening ASEAN and encouraging close co-operation between them.

But as time has passed and international interest in the issue has faded so differences in perception have emerged among ASEAN members, with each having a distinctive perspective on the

nature of the Vietnamese threat to the region, the longer term threat from China and the best tactics for achieving a settlement.

Committed to a war of attrition against Vietnam, ASEAN has found its own members stand crumbling faster than the Vietnamese, attrition or no attrition.

Aware of this trend and aware that support is eroding for its position inside the UN General Assembly—where it continues, albeit embarrassed, to endorse the membership of the genocidal Khmer Rouge regime—ASEAN has worked steadily to set up a Khmer coalition government in exile.

That effort at last bore fruit this summer when the Khmer Rouge joined with Prince Norodom Sihanouk and former Khmer Prime Minister Soum Sam in Kuala Lumpur to establish a tripartite coalition.

Few people are willing to argue that the coalition will survive for long—it is a marriage of dubious convenience

—but it allows ASEAN to go to the General Assembly this summer and ask members to back the coalition against Heng Samrin instead of again asking support for the Khmer Rouge regime.

In the wake of a major tour of the region by Nguyen Co Thach, Vietnam's Foreign Minister, no one would dare claim that progress on substantive issues has been made. Life in Kampuchea under the Heng Samrin regime seems steadily to be returning to normal. Prospects of Vietnamese troop withdrawal remain dim without a significant softening of China's attitude towards Vietnam.

If there is any softening it is on the part of ASEAN members, where doves like Malaysia and Indonesia are adamant that doors to Hanoi must be kept open. Even the hawkish Singapore Government is quietly discussing the likelihood of Heng Samrin being persuaded to join the recently established tripartite coalition—perhaps at the expense of the Khmer Rouge.

The conviction inside Malaysia remains strong that a stable Vietnam will in future be an important buffer against China; others inside ASEAN share that view.

But while Malaysia's hope for peace, freedom and neutrality in the region comes closer to fulfillment than at any time in the past 21 years a new shadow has appeared over the horizon.

Western governments, particularly that of the U.S., seem to have forgotten that the often-branded stability of the strategically important South-East Asian region is premised on rapid economic growth. The loss of growth momentum, if not soon corrected, will introduce new and dangerous elements of instability among people who have in the past few years become used to 10 per cent annual growth and have acquired a taste for the luxuries of life.

David Dodwell

Britain gets the shock treatment

DR MAHATHIR MOHAMAD, Malaysia's Prime Minister, is a firm believer in the political and economic value of shock treatment. No community in Malaysia at the moment will be more acutely aware of that fact than the British.

Piqued by what was often felt to be smugness and complacency by British businessmen who had rested for too long on the remnant laurels of colonial power and affronted by snubs which made it all too clear that British Ministers had scant regard for what Malaysians still saw as a "special relationship" with the motherland, Dr Mahathir last October issued a directive that sent shockwaves through the British expatriate community—and through Whitehall.

Insisting that all Government contracts involving British tenders must come directly to him, Dr Mahathir imposed what amounted to a boycott of British goods. Given a choice between competitive tenders the Government would in future reject the British tender.

The policy remains intact to this day, with attempts to calculate Britain's export losses ranging between £20m and hundreds of millions.

UK Trade Directive: "Everything else being equal, or even slightly unequal, we would buy non-British. If the difference in price is, say, 5 per cent we would still buy non-British." Dr Mahathir Mohamad.

Neither Whitehall nor British business interests yet know quite what has hit them; nor do they know how best to respond.

Dr Mahathir's shock treatment against Britain came as a bolt from the blue at least two reasons. First, it was always felt that Britain had made a great success of weaning Malaysia to full independence without violence or anti-colonial upheaval. Britons back in London may not have been aware of the "special relationship" expressed by Malaysians but those in Kuala Lumpur or elsewhere in Malaysia basked in it daily.

Secondly, Britain's pre-eminent position as Malaysia's main trading partner had long since been eclipsed by Japan. It has always been thought that it was the Japanese who were resentful in the region as a predatory "economic animal."

Anger in the British business

What the British failed to note adequately was Dr Mahathir's personal bias against Britain and his desire to demonstrate vividly his unwillingness to remain for ever the economic victim of a patron-client trading relationship in which Malaysia supplied raw materials for the manufacturing industries of the West.

They failed to realise what a convenient scapegoat they were as Dr Mahathir strove to instil a stronger sense of national dignity and—through his "Look East" policy—to inject more vitality into the work ethics of Malaysia's easy-going people.

Many of Dr Mahathir's grievances were genuine. By raising UK university fees Mrs Thatcher's Government had created real difficulties for a country with over 15,000 students currently in Britain.

D. D.

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Relations with Singapore in happier vein

RELATIONS between Malaysia and Singapore have undergone a transformation over the past 10 years.

Prime Minister Dr Mahathir

Mohamad recently said:

"Singapore's success story in

the economic and social fields

cannot but be a model for

Malaysians rather than an

object for envy. What we do

within our own country is

therefore contributory and

complementary towards each

other's progress."

This was a marked shift

from Dr Mahathir's view of

Singapore in 1970, which he

articulated in his famous

malapropism, "The Malay Dilemma:

"In the Malay archipelago

Singapore stands out like a

sore thumb. Singapore's pro

gress and prosperity must

depend on, indeed must be

at the expense of, her neighbours

—the only reason

why the relationship between

Malaysia and Singapore is not

more strained than it is now

because the Chinese in

Malaysia wish to maintain

good relations with Singa

por.

Malathir was not alone

among Malaysian politicians

to have his suspicions of

what one Singaporean rue

fully says they referred to as "this upstart of a young state". Relations between the two governments were unhappy from the creation of the Federation of Malaysia in September 1963; the Malays were only just in the overall majority in the new entity and feared that Lee Kuan Yew's tiny Chinese City State would end up calling the political tune, whereas the unofficial arrangement, in the eyes of Kuala Lumpur, was for the Chinese to run the economy and the Malays the politics.

In a welter of mutual recriminations, the two countries went their separate ways in August 1965. Mahathir subsequently spelled out in his book some of the areas of conflict between the two neighbours: Malaysia's over-dependence on Singapore as a trading partner; discrimination against the employment of Malaysian nationals in Singapore and the close economic ties between Chinese families on both sides of the causeway which seemingly threatened to undermine Malaysia's economic strategy.

Net all causes of friction

Focus on Japan as exemplar

A PARTY of young Malaysians—135 in all—are shortly to pioneer an experiment which could have far-reaching consequences both for their country and for its new-found model, Japan. They are the first of several groups of industrial trainees to be sent to big Japanese corporations for on-site familiarisation with the work ethics which have contributed to Japan's post-war economic success. In the next two years about 900 Malaysians will undergo similar training with world-famous names such as Matsushita, Nippon Steel, Hitachi, Sanyo and Toyota.

It is the first time that Japan has ever co-operated on such a programme involving so many young foreign workers, although the numbers involved are small compared with the 30,000 Malaysian students attending courses in Britain, Australia and the U.S. None the less, the successful implantation of the Japanese psyche into Malaysian workers is regarded as essential if the currently rosy relations between the two countries generated by Prime Minister Dr Mahathir Mohamad's call for his countrymen to "Look East" are to prove durable.

The Look East policy also includes South Korea, with which the Malaysians recently signed a double taxation agreement to facilitate the flow of

capital and technical expertise and increase Korean investment and bi-lateral trade.

Malaysia imported \$325m worth

of goods from South Korea last year while exporting \$245m.

Japan is Malaysia's biggest trading partner and recently took over from Singapore as its top investor, with projects approved by the Malaysian Industrial Development Authority in 1981 amounting to \$620m. Australia and the U.S. with \$257.9m and \$247m respectively rank second and third.

Exports to Japan dropped from \$365m in the first four months of 1981 to \$273.5m in the corresponding period this year.

The Malaysians bought

from Japan, \$51.7m of

manufactured products, heavy

machinery and transport equipment.

However, the trade gap

is likely to swing in Malaysia's favour when the Japanese start

importing natural gas from Bintulu.

Since 1966 Japan has provided Malaysia with \$195m of concessional loans to finance major industrial projects, including hydro-electric power plants, construction of port facilities in Johore Bahru and Bintulu and the Connaught Bridge gas turbine power station.

Japan's heightened profile in

the region is partly in response

to U.S. pressure to fill the

vacuum left by the Americans

following the Vietnam debacle but is also a response to Japan's desperate need for natural resources.

Malaysia is Japan's largest supplier of natural rubber (latex), palm oil, tin and tin alloys.

When the Bintulu natural gas project comes on stream Japan will import virtually the entire output—an estimated 6m tonnes, worth \$1.8bn a year.

Since 1977 Japan has been providing aid through its Official Development Assistance programme (ODA)—Y15.150bn for a variety of educational projects.

But while Japan is closely involved in the Malaysian economy, the Japanese have consistently taken a low political profile, no doubt mindful of the anti-Japanese demonstrations in early 1974 directed at what was perceived to be Japan's "economic imperialism" in South-East Asia.

However, it is Japan's phenomenal economic growth in the intervening period which has attracted Prime Minister Mahathir Mohamad, whose election campaign on clean, efficient and trustworthy administration was endorsed by voters in May.

While some would argue that an example of good work ethics could be found closer to home among the country's own ethnic Chinese population and in neighbouring Singapore, it is to Japan that Dr Mahathir is turning for advice and example.

He told a Malaysian-Japanese joint meeting earlier this year: "We have for a long time been looking West, as did Japan in the early days of her development. But the West is no longer a suitable model. They have lost their drive... Japan may be classified as developed but it is still developing vigorously. As such it is a much better example for developing Malaysia."

The formation of three Malaysian-style sogsoshas—giant general trading companies—was an early response to the new Look East policy, which also seeks to avoid excessive dependence on Western markets at a time of world recession. But there are serious doubts in both Malaysian and Japanese business circles about whether the Japanese work ethic will "take" in a very different multi-racial society, with none of Japan's traditions or cultural homogeneity.

The Japanese themselves seem slightly bemused at having the spotlight so abruptly shone on them, perhaps because one result of Dr Mahathir's pronounced admiration of the Japanese economic miracle will certainly be to step up pressure on Tokyo to transfer technology and know-how to Malaysia if it wants economic relations to remain cordial.

K. D.

THE ROLE OF ISLAM. Kathryn Davies interviews Anwar Ibrahim, the deputy Minister with special responsibility for the introduction of Islamic concepts into Malaysia's pluralistic society

What is the role of Islam in modern Malaysian political life?

Why did you decide to join Dr Mahathir's administration?

Firstly, I was never keen to work with any of the opposition parties... at the same time we (Abim) have established good rapport with government leaders, particularly Dr Mahathir, even when we strongly disagreed

The Chinese

Malaysia's substantial Chinese minority—ranging from the well-to-do businessman to the rural smallholder—are looking to the new political coalition to give a more sympathetic ear to their demands as a community. KATHRYN DAVIES reports below, with profiles of a representative trio.

Search to integrate aims within a multiracial society

THE POLITICAL choice for Malaysia's substantial Chinese minority in the years since the race riots of May 1969 has been either to work within a Malay-dominated government coalition seeking 'modifications' to or compromises with the New Economic Policy, or to confront the Malay majority by fighting for specifically Chinese economic and social rights. They had to make their choice in the context of political parties organised on racial lines, with the Chinese vote split largely between the Malaysian Chinese Association (MCA) and the Democratic Action Party (DAP).

For the moment a substantial part of the Chinese community seems to have decided that the conservative business-

orientated MCA is more effective, an impression that was reflected in the ruling coalition's sweeping victory in May. The opposition DAP suffered severe setbacks at both national and state levels, with its representation cut from 18 to 9 parliamentary seats and those at state level from 25 to 16 seats. The MCA increased its parliamentary strength from 17 to 24 seats (out of the 28 it contested).

The campaign style of the 2-Ms (Mahathir and Musa) undoubtedly had its appeal to a Chinese population whose own work ethic coincided neatly with "a clean, efficient and trustworthy" government. The fact that Dr Mahathir's exhortations to Malaysians to work

harder and more productively, together with the "Look East" policy, were seen to be directed mainly at the Malay majority, also went down well with other races.

As the MCA argued to some effect, under the Malaysian political system the benefits of development tend to go to constituencies which return pro-government candidates: "The DAP can shout till the cows come home" notes one political scientist. But the swing away from confrontation politics may not survive the next election unless the MCA can prove its point.

During the election campaign Dr Mahathir sought to woo MCA voters by promising to pay special attention to

the views of party leader Datuk Lee San Choon in cabinet. But the more radical members of UMNO, and particularly its youth wing, are ever-vigilant for signs of any backsliding in the implementation of policies designed to give the Malays a bigger share of the country's economic cake. Even if he wanted to accommodate the needs of the Chinese, Dr Mahathir's room for manoeuvre is limited—and so is that of the MCA.

Successful Chinese businessmen such as MUI's Khoo Kay Peng, Tan Koon Suan of Multipurpose and Supreme, Lim Goh Tong of Genting Highlands and Chua Boon Uan of Cycle and Carriage have undoubtedly found it possible to live prosperously in the new political climate

and are happy to give their public endorsement to Dr Mahathir's government. But anxieties remain, particularly for those outside the Chinese business élite to whom the MCA must appeal for broad-based support.

About 700,000 Malaysian Chinese have outstanding applications for citizenship which are repeatedly deferred for reasons which seem obscure. Chinese complain that they have difficulty in acquiring passports for overseas travel. Politicians of all Chinese political parties point to boundary changes which have made many constituents "lopsided"—heavily dominated by Malays.

The most sensitive issue throughout

the Chinese community remains education and with the effective demise of the idea of a new Chinese university the focus is on the official policy of deliberate discrimination in favour of Malay university entrants. Chinese parents who can afford it send their children abroad while among those who cannot, resentment is growing. Virtual debarring from entry into the civil service is another concern for middle-class Chinese with professional qualifications. MCA Senator Tan Koon Suan noted recently: "Today the Malaysian Chinese are still in the process of identifying their dilemma and a magical formula to the solution of their problems is still far away."

THE SHOPKEEPER: LOH WAH ON

Typical of the many small family businesses

MOST CHINESE share the same values: hard work, thrift and reverence for education. But the conventional stereotype of the wealthy Chinese, an inspiration in his own community and an irritant to many outside, applies only to a minority of successful entrepreneurs in Malaysia. More typical is the small businessman with a family or clan-orientated commercial or industrial business. Such people have traditionally regarded the MCA as the party of the powerful and have tended to vote in large numbers for the opposition DAP. But Chinese political allegiances may be changing.

In any case, according to leaders of the Malaysian Chinese business community—mostly closely allied with the MCA—the days of the small man are numbered. The increased economic participation of bumiputras (Malays) backed by the Government, together with a much more sophisticated business environment are putting the lone entrepreneur under threat.

But this news of their imminent demise does not yet seem to have filtered down to the estimated 125,000 to 300,000 small enterprises (defined as units which employ fewer than fifty people and have fixed assets below M\$ 250,000) that still seem an integral part of economic life not just in Malaysia but all over Asia. In one of the most popular shopping complexes in Kuala Lumpur one finds a labyrinth of boutiques, beauty parlours and open-fronted video equipment emporiums, blaring out a deafening cacophony of Western, Chinese and Malay pop music. There sits the small Chinese entrepreneur, often employing other family members and working a 12-hour day.



six or possibly even seven days a week.

On the second floor of the complex is Loh Wah On's colour processing laboratory, which doubles as a retail outlet. He has two other shops elsewhere in the capital. "I believe that my business is a family business. I don't think it's ever going to become a conglomerate."

Business is good now, but a few years ago Wah On was close to bankruptcy. The 34-year-old returned from a three-year training and job experience course in West Germany with M\$ 5,000 of savings and a determination to start up on his own. (Most small-scale Chinese businesses start with capital of less than M\$10,000.) "I got into debt, big debts. Basically it was a matter of cash flow. My family comes from the Kampong (village) and I'm without any family [financial backing]."

By this time Wah On was married and his wife, who owns her own boutiques, and her family chipped in to clear his debts. Then he was eligible

for a loan of M\$ 50,000 from the Credit Guarantee Corporation set up to help small enterprises. The CGC limits loans to non-bumiputra borrowers to M\$ 100,000 at 8.5 per cent in interest.

Wah On bought his second floor shop last year for M\$ 70,000 and installed a complete set of film processing and printing machinery. He employs two counter sales girls "and my sister is helping out." He solved his cash flow problem by doing work for cash only and not extending credit.

Politically, he is a conservative, having little time for those members of his community who campaign for Chinese language education and a Chinese university. He intends to send his two children, aged 4 and 5, to batuas or national schools. "I personally believe, because I've studied the problem quite deeply, it doesn't matter what language you speak at school, the important thing is what kind of training you get . . . and since this country wants us to study batuas, we might as well study batuas."

However, what worries him much more than national issues—about which he is optimistic—is the possibility of competition in the photo-processing business. "I should not be happy if somebody sets up a business of this kind in this complex. It will give me a big headache."

When it is possible Wah On intends to move down to the ground floor to a more prominent location. But although he believes that his six-day, 72-hour week will bring him a good living, he is not listening to those who advise him to think big. "Don't make me out to be a future big industrialist and anything like that," he says.

THE VILLAGER: YAP KEE YONG

Happy but short of facilities

YAP KEE YONG, 41, gets up at 3 in the morning to collect the latex from the tiny cups strapped to his rubber trees. This task, the first of his working day, will go on until between 9 am and 11 am, unless it is raining, when he will not be able to work at all. On a good day he should be able to sell the latex he has collected to a licensed rubber dealer for between M\$ 10 and M\$ 15, although falling world prices are affecting his income. On the days he does not collect the latex, either because of the weather or if he is ill, he earns nothing.

Mr Yap is one of 1,200 largely Hakka-speaking Chinese Malaysians in the New Village of Seelong—one of more than 450 such villages throughout Malaysia originally designed by the authorities to isolate potential supporters for the Communist Party of Malaya (CPM) during the Emergency in the late 1940s and 1950s.

Seelong is about 25 miles north west of the state capital of Johore Bahru. The villagers

were allocated about seven acres of land each on a renewable lease of 21 years. Most of the families in Seelong, like Mr Yap, are rubber tappers. Crops like coffee, palm oil and pepper are also grown.

In the afternoon Mr Yap will plough and cultivate the part of his land not given over to rubber. Although he does not grow enough produce to sell, his vegetables help him and his family of six children towards self-sufficiency in food.

Normally he will work a 10-hour day and a seven-day week. There is little time for leisure and the village has few recreational facilities anyway. There are two grocers, a coffee shop and a community hall. There is no doctor or pharmacy, although a medical team visits the village once a week. When Mr Yap became seriously ill two years ago, he went to Singapore for treatment. "He's a rich man," jokes a friend in the local coffee shop.

Like the other villagers Mr Yap has dug a well on his property which provides his

only water supply. Local streams are used by the women to wash clothes. There is no regular power supply in Seelong but two privately owned generators provide the village with electricity between 6 pm and 6 am at a cost of M\$ 14 per month per family. Mains electricity, promised before last May's election, has not yet been connected. There is no public transport to the nearest town, Kulai, several miles away, and no secondary school.

Mr Yap joined the opposition Democratic Action Party (DAP) eight years ago and is now the treasurer of his local branch. The village is politically divided and the constituency of which it is part is held by a member of Gerakan, a component part of the ruling National Coalition. All political parties with strong Chinese interests, including the business-orientated MCA, agree that the M\$ 30m allocated under the Fourth Malaysia Plan to develop the new villages and improve the lives of their 2m inhabitants is grossly inadequate.

Villagers like Mr Yap face additional problems in acquiring more land both for residential purposes to accommodate expanding populations and for cultivation to provide employment. They say that the Land Office in Kulai is slow to process their applications and usually turns them down. Their legal status as lessees of the land they were originally given is also uncertain, as many leases have not been renewed.

Mr Yap says he does not particularly want to leave Seelong, with its uncomplicated life-style compared to that of the cities. He and his friends in the village merely want to see better facilities provided, particularly housing and transport. The only thing that would make him move, perhaps to the state capital, would be the education of his children who will otherwise have to make the arduous journey along the bumpy road to Kulai or Johore every day.

THE POLITICIAN: DATUK LEE SAN CHOON

Cabinet member and voice for his people

A NEWLY recruited civil servant arriving, as he thought, early at the office was startled to discover Minister of Transport and MCA (Malaysian Chinese Association) President Datuk Lee San Choon already at his desk, having arrived for work before 7 am. That may in part be a nod towards Prime Minister Mahathir's efficiency drive but it is also a measure of the heavy pressure on Lee and his MCA colleagues to produce results following their election successes last May. "They are on trial," says one political commentator.

"In fact they may not be entirely happy that they now have to deliver the goods."

The MCA is still seen

as the link between the two communities. He was one of the architects of Multipurpose Holdings, the MCA "corporate arm" designed to channel Chinese investment into productive areas at a time when the New Economic Policy threatened to throw Chinese businessmen on the defensive. Under the guidance of MCA Senator Tan Koon Suan, Multipurpose bought up a string of malfunctioning companies and made them prosperous and successful. The conglomerate now has a market capitalisation of more than U.S.\$300m.

But for Lee the politician

the key question in the next five years is whether he can make a permanent impact on the lives of middle class and poor Chinese.

The opposition Democratic Action Party (DAP), with a solid 24 per

cent of the popular vote, stands ready to win back voters who in May threw their weight behind the establishment party in the understanding that if they did so economic fruits would be more evenly spread among the races. The DAP stands more openly for non-Malay interests in a multiracial society but was apparently seen by Chinese floating voters as ineffective.

Lee is a political heavyweight with 23 years' experience as a member of parliament. The third of twelve children of a Pahang dentist, he completed his secondary education at the English College in Johore Bahru and reads and writes English and Bahasa, as well as no fewer than eight Chinese dialects. He is a controversial figure, both because of his wealth

and because he is generally reckoned to have a deceptively shy exterior masking a tough, even ruthless, approach to political enemies and friends alike.

It is a measure of Lee's toughness that he took up the challenge thrown down by the DAP's Lim Kit Siang in May to fight in any one of the 12 parliamentary seats with a Chinese electoral majority.

He chose to take on DAP chairman Chee Man Hin, who held the Seremban constituency with an 8,000 majority

and who had a considerable personal following. To the chagrin of the opposition Lee won the seat, albeit by a small majority. Lee threw the entire weight of the MCA political machine into the contest, as well as making some headway with the argument that in government the MCA

had achieved some results for Chinese interests such as the formation of the Tunku Abdul Rahman College, which increased the places for tertiary education for Chinese students; the Kaludi scholarship scheme and the co-operative movements which "have given people a sense of ownership" say the MCA.

influence on international trade and commerce. It is a success mirrored by the benefits of similar ventures in other developing nations.

All over the world, Blue Circle is able to supply management skills and technology. In partnership with local interests, these investments help speed both progress and prosperity.

In Indonesia, for example, abundant oil and gas supplies are giving rise to industrial development which has merited one of the more ambitious projects in the country for many years. As well as a new cement works,

Blue Circle is helping develop a harbour, power station, housing and other amenities. And there are similar achievements in Brazil, Kenya, Mexico, Nigeria and Zimbabwe.

This overseas activity doesn't mean that Blue Circle has neglected its commitment to Britain. On the contrary, Blue Circle is planning a major capital investment programme over the next five years, to improve the output and efficiency of existing cement operations, and investing in a complete new works.

This is just a part of the Blue Circle story.

So, if you had no idea just how big Blue Circle is around the world but would like to find out, write to the Group Managing Director, John Milne, at: Blue Circle Industries, Portland House, Stag Place, London, SW1E 5BJ.

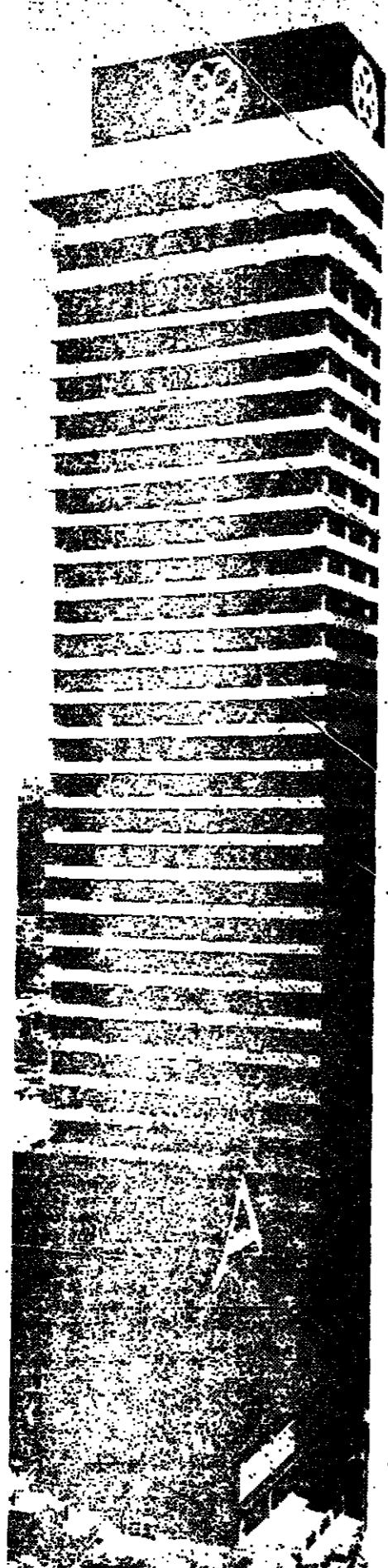
"I HAD NO IDEA WHAT BLUE CIRCLE WERE DOING IN MALAYSIA"

But it's not just for cement that Blue Circle is known in Malaysia. With its diversification into the bathroom business through Armitage Shanks, the Group acquired an interest in the country's biggest manufacturers of bathroom fixtures. The company's factory in Kuala Lumpur is now expected to double output by 1983.

And, other internationally-known products Sandtex and Snowcem are both made at Rawang for sale throughout the country.

These ventures reflect Malaysia's enterprise, growing prosperity and increasing

Blue Circle Working around the world



Bank Bumiputra maintains amazing growth rate

Condensed Statement Of Conditions
December 31, 1981

| | 1981 M\$'000 | 1980 M\$'000 | 1979 M\$'000 |
|---|-----------------|-----------------|-----------------|
| ASSETS | | | |
| Cash in banks, money at call and short notice | 3,219,878 | 3,205,506 | 2,286,861 |
| Loans and Advances | 6,338,971 | 3,855,411 | 2,257,590 |
| Bills receivable | 325,466 | 429,533 | 165,672 |
| Treasury Bills and Government Securities | 1,794,549 | 968,226 | 952,627 |
| Other Investments at cost | 198,227 | 93,035 | 92,099 |
| Land, building and other assets | 1,371,343 | 970,293 | 353,770 |
| Total | 13,248,434 | 9,522,004 | 6,038,619 |
| CAPITAL AND LIABILITIES | | | |
| Authorised Capital | 500,000 | 500,000 | 200,000 |
| Issued and paid-up Capital | 476,000 | 272,000 | 100,000 |
| Reserves and balance of unappropriated profit | 104,783 | 84,193 | 58,879 |
| Deposits (demand, savings, fixed, etc) | 8,165,037 | 6,673,313 | 4,990,175 |
| Deposits and balances of agents and banks | 4,037,449 | 1,892,730 | 619,801 |
| Bills payable and other liabilities | 465,165 | 599,768 | 319,764 |
| Total | 13,248,434 | 9,522,004 | 6,038,619 |
| Liabilities on acceptances and guarantees | 5,129,903 | 2,488,730 | 1,486,175 |
| Balance sheet total | 18,378,337 | 12,010,734 | 7,574,794 |

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Mersini Bumiputra,
Jalan 15/15A
Kuala Lumpur, 01-18
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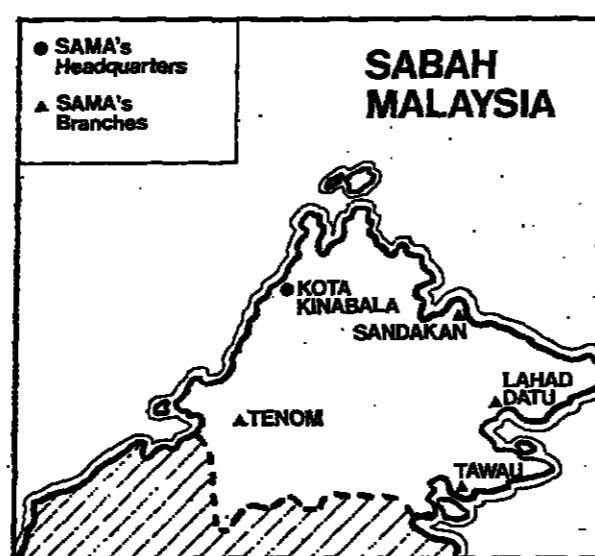
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principal cities of the world

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INCORPORATED IN MALAYSIA - HEAD OFFICE - KUALA LUMPUR

Menara Bumiputra
the bank's new HQ in
Kuala Lumpur.

EXPORT FROM SABAH THROUGH SAMA



SABAH MARKETING CORPORATION SDN. BHD. (SAMA) a Pte. Ltd. company wholly owned by the State Government of Sabah, Malaysia was established in 1978 as the Government's marketing arm for Sabah Agricultural Produce. SAMA is the selling agent for exporting marketing of produce from State Government Departments/Agencies like Agriculture Department, Sabah Land Development Board, Sabah Rubber Fund Board, etc. SAMA also trades with the private sectors in Sabah as well as in Sarawak. SAMA's sales turnover reached M\$143 million in 1982 with a paid-up capital of M\$18.7 million.

Through SAMA, international commodities buyers have a reliable marketing institution in Sabah whom they can place bids and orders with confidence. SAMA as a Government-backed commercial organisation and as a reputable exporter, will not renege on its contract. As SAMA is actively promoting Sabah's produce, it exports and guarantees good quality produce.

The commodities promoted and marketed by SAMA are shown below:-

(1) Cacao

SAMA expects to export about 5,400 tons of dry cocoa beans in 1982 or about 30% of the State's export. The average bean count is 100 beans/100 grain maximum. Moisture is 7.5% maximum of shipment. Other terms as per Contract CAL (Cocoa Association London) Form A4.

(2) Crude Palm Oil

Occasionally, SAMA can sell a minimum of 1,000 MT basis CIF Rdm/Msy on FOSFA (Federation of Oils, Seeds and Fats Associations Ltd.) 80 Contract. SAMA also sells FFO basis CIF European based ports on FOSFA 56 Contract.

(3) Rubber (SMR)

SAMA exports about 6,000 tons of SMR 5 and about 1,500 tons of SMR 20 per year. SAMA refer to the MRE (Malaysian Rubber Exchange) official quote as reference point. SAMA can also trade at the London market by giving overnight offer. Payment 21 days CAD Bills of Lading. Through Bill of Lading from Sabah to European ports can be arranged.

(4) Saw Timber

SAMA is exporting red meranti (meranti), kapur/keruing scantling to Europe/UK. SAMA leads in the promotion of a superior hardwood locally called "Selangan Batu", which is in abundant supply in Sabah. This species is highly recommended for use in construction of wharves, bridges, telegraph posts, railway sleepers and truck flooring.

(5) Rattan

Rattan processing is undertaken by Sabah Rattan Pty. Ltd. which operates on a joint venture basis between a private concern and a Government Statutory Authority. High quality rattan household goods and furniture are produced.

(6) Tea

Sabah Tea Sdn. Bhd. is planting 4,000 acres at Nyalapak, Ranau. So far about 500 acres have been planted with 80 acres already matured and in production. Tea is now supplied locally to meet local requirement. In 1983, tea is expected to be exported.

(7) Coffee

Robusta and Liberia coffee are widely grown. Total acreage planted to date is over 5,000 acres with an estimated bean yield of 500 MT per annum.

All trade enquiries should be channelled to SAMA.

SAMA

SABAH MARKETING CORPORATION SDN. BHD.

9TH FLOOR, BERJAYA HEADQUARTERS BUILDING, KOTA KINABALU, P.O. BOX 1501, KOTA KINABALU, SABAH, MALAYSIA

TEL: 58211, 57298, 58150, 58151, 58152, 58153, 58154, TLX: MA 80234/80238 SAMAKK. CABLE: SAMCO.

مكتباً من المكتب

Commodities

MALAYSIA VI

The decline in prices has bought financial implications for the entire economy. Hope lies in a revival of the world economy.

Once-buoyant sector falls on hard times

MALAYSIA'S ONCE buoyant commodity sector has fallen on hard times. The prolonged global recession has sharply contracted demand, leading to a severe drop in prices.

Many tin mines are closing down. Many rubber small-holders have stopped tapping their trees because it is no longer worthwhile.

The timber industry has been in the doldrums for several years, while palm oil growers, who have escaped the recession so far, are beginning to feel the pinch.

"There is nothing very much one can do but hope for an early revival in the world economy. That's the only thing that will lift prices," says a Malaysian plantation owner, reflecting the general view among the country's commodity producers.

Since Malaysia is still largely a resource-based country, the decline in commodity prices is being felt throughout the economy.

An indication of the financial implications can be seen by how far projections of the Treasury have gone out of line with the actual situation—and Malaysia's Treasury estimates are by nature conservative.

Last October, when the 1982 budget was presented, the Treasury was forecasting that Government revenue in the form of export duties on rubber and tin would be Ringgit 800m and 330m respectively.

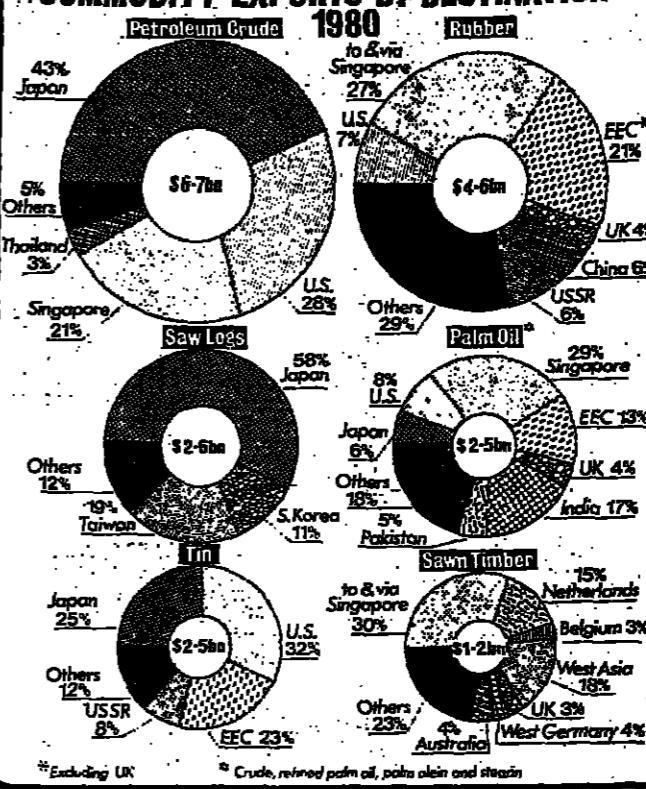
This was based on an estimated average price of 285 cents per kilo for rubber and Ringgit 34.7 a kilo for tin, with rubber exports totalling 1.58m tonnes and tin exports 67.000 tonnes. But so far this year the rubber price has been around the 200 cent mark and tin prices are well below the Ringgit 30 level.

If such prices persist throughout the year—and there are no signs to indicate they will move up—the Government will be getting less than Ringgit 800m.

Compared with two years ago the rubber price has fallen a good 41 per cent expressed in a stable Ringgit. For most of Malaysia's half-a-million rubber smallholders, many of whom work on land of less than five acres, it means a return to subsistence living, made tolerable only by Government subsidies and the influx of remittances from their sons and daughters working in the cities.

The situation is even bleaker for the tin mining industry. Because there is a surplus of the metal on the world market estimated at 60,000 tonnes the International Tin Council has imposed tough export control measures. The cutback for the July to September quarter is 36 per cent and similarly severe curbs on exports are expected to run well through next year. The bigger and more efficient

COMMODITY EXPORTS BY DESTINATION 1980



*Excluding UK

**Crude, refined palm oil, palm oil and starch

†Crude palm oil, palm oil and starch

‡Crude, refined palm oil, palm oil and starch

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MALAYSIA VII

The Eastern States

Separated from the mainland part of the Federation by 1,000 miles of the South China Sea and ethnically different in population, Sarawak and Sabah present a special concern to the Government in Kuala Lumpur

Resource wealth allows scope for qualified autonomy

MALAYSIA'S two eastern states of Sabah and Sarawak are critically important to the federation because of their oil and timber wealth, and at the same time the country's renegade states.

Separated from peninsular Malaysia by 1,000 miles of sea and populated by people radically and culturally distinct from the Moslem Malays of the peninsula, they have repeatedly taken pains since joining the federation in 1963 to demonstrate their separateness.

Exploiting the independence that comes from oil and timber earnings and inflaming local fears of federal interference whenever it was appropriate, the state governments have won for themselves an exceptional degree of autonomy to manage affairs in their own distinctive and sometimes cavalier style.

At the same time federal power needs to be carefully courted. Kuala Lumpur can dispense or withhold develop-

ment funds, mobilise or frustrate election machines, soothe or stir up factional conflict in the states — and so can never be taken for granted.

The result is that politics and economic management in a state like Sabah are almost inevitably larger than life. Elections are waged with unparalleled ferocity. No political vitriol is spared in a contest where stakes are exceptionally high. Victory means access to very large resources which can be used for patronage. To dispense rewards for loyalty is seen as no sin.

Datuk Harris Saleh, since sweeping to power at the head of the breakaway Berjaya party in 1978, has run the administration in a manner more suited to an autocratic managing director than to a democratically elected Chief Minister.

But the state has seen benefits from this. When Datuk Harris's predecessor, Tun Mustapha, was overthrown after

12 years of running the state almost as a personal fiefdom the coffers were empty. State funds have since been built up to more than M\$1.4bn. The fruits of substantial development spending are evident across the state — and nowhere more so than in Datuk Harris's home town of Labuan.

Associated gas soon to be piped onshore at Labuan from the oil fields of Erbwest and Samarang will by the middle of the decade be fueling a power station. A strong bid is being made for federal approval for an M\$1.2bn pulp and paper mill, though recent cuts in federal development spending may lead to this project being shelved.

Such developments, along with the rise of oil earnings and a broadening of the state's agricultural base, have curbed Sabah's dangerous dependence

on the timber industry. In two states that the 5 per cent royalty they get on oil exports is a pittance and is in no way made up for by federal development spending. Kuala Lumpur obviously sees things in a different light, wanting to use oil revenues for the development needs of the federation and limiting the royalty to ensure continued dependence on the central administration.

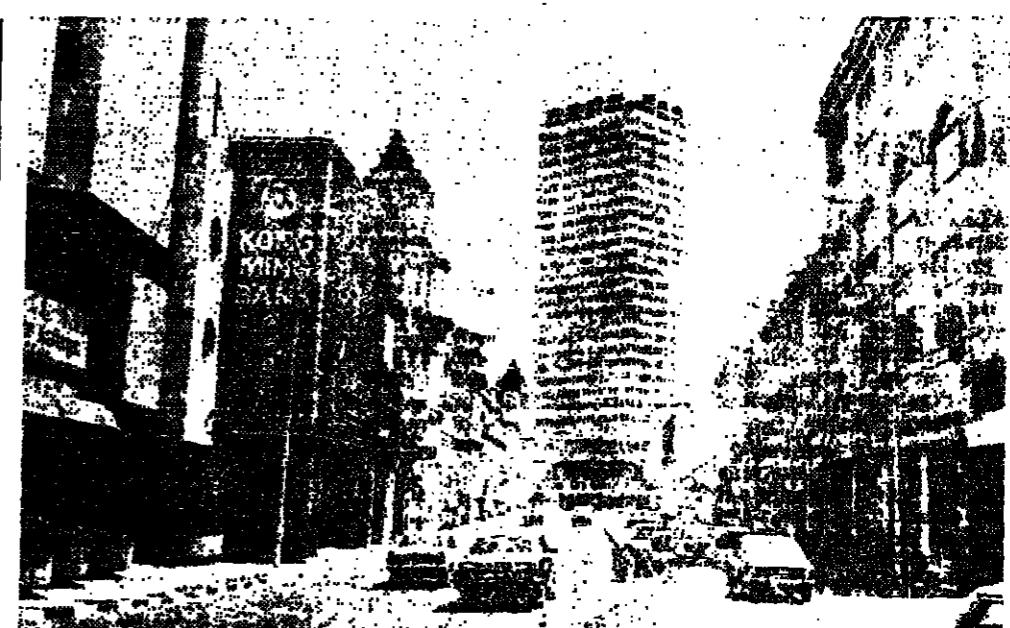
Sarawak, Malaysia's largest state, has in the past been bypassed by Malaysia's rapid economic growth, even though earnings from offshore oil and gas have been substantial. Its soil is less fertile than Sabah's, its jungles more impenetrable. As a result over 60 per cent of the state's population still live in poverty.

Despite formidable problems linked with laying down an infrastructure of roads, water and electricity and despite a continuing shortage of skilled labour, changes are taking place which could alter the face of northern Borneo.

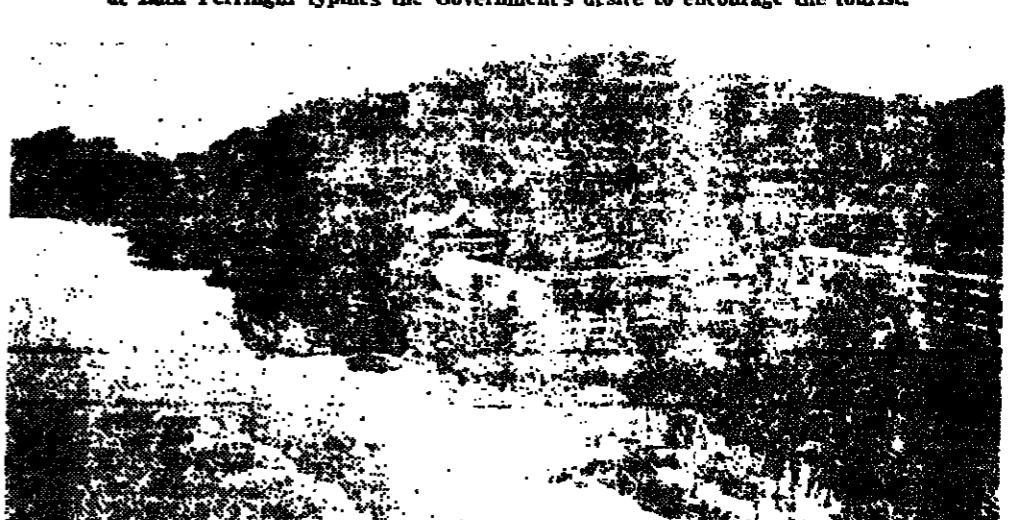
At Bintulu oil and gas reserves are to be tapped to establish an LNG plant, a crude oil terminal, an urea and ammonia plant and a palm oil crushing station. A deep-water port is to be finished at nearby Tanjung Kidurong by early next year. The total development, costing about US\$4bn, is

likely to be the largest development ever in South-East Asia. Bintulu, eventually to be linked to the rest of the state by the pan-Sarawak highway and the focus for numerous smaller manufacturing ventures, is likely to be the catalyst that sweeps the state from the Stone Age into the Space Age — though there are many who justly fear such a sudden and drastic change.

With such great untapped potential Sabah and Sarawak are being kept on a short leash by the federal government lest they throw off the federation and try to go it alone. Complaints are often made in the



Above: The financial district of the capital Kuala Lumpur. Below: The Rasa Sayang Hotel at Batu Ferringhi typifies the Government's desire to encourage the tourist.



Two more expatriate banks are about to begin the process of Malaysianisation

Banking

Further moves towards equity surrender

IN ANOTHER six months or so the two largest foreign banks in Malaysia — Chartered Bank and Hongkong Shanghai Bank (HSBC) — are due to announce details of plans to Malaysianise. The events are significant. Banking anywhere is a strategic business.

Chartered, part of the Standard and Chartered group of the UK, and HSBC would set into motion the equity restructuring in foreign banks that had been undertaken in the 1970s and is now largely completed in the mining and plantation sectors.

Malaysianisation of foreign banks is not new. The law prohibits banks in Malaysia from being controlled by a foreign government and quite a few banks had restructured under this rule.

The latest is Banque Indosuez, which had been nationalised by President Mitterrand's Socialist Government in France. It has

Malayan Banking Corp. more favourable capital to deposit ratio.

On the local banking scene the past year has been characterised by the change-over in top management reflecting the fortunes on the political scene.

Appointments of new executive chairmen were made at Bank Bumiputra, Malayan Bank and UMBC. These changes were at the direction of Dr Mahathir, the Prime Minister, who wants to clear the decks of men considered to be sympathetic to Tengku Razaleigh, the Finance Minister.

Operationally, the industry is expected to see a slower growth rate than in the past five years, in line with the slowdown in the economy.

Liquidity will continue to remain tight, reflecting the reduced earnings from Malaysia's exports.

The past months saw the easing of deposit rates but bank lending rates are inching up. The banks say their lending rates have to go up because of the fact that they have to cover for large portions of their loans made to the "priority sectors" at only 10 per cent interest — although one suspect there is also a strong element of profit maximisation.

The prime rate is still pinned, largely at the insistence of the central bank, at 8.5 per cent, although no one now qualifies for the prime. Even the most desirable clients pay 11 to 12 per cent, while the usual rate is 13 to 15 per cent.

The Malaysian stock market is in for a depressed year after four years of steady expansion which climaxed in a record boom in the first half of last year. The Kuala Lumpur Stock Exchange (KLSE) industrial index reached an all-time high of 823 points at the end of June 1981 but the subsequent fall was swift and traumatic.

In the two months July-August the bottom fell out of the market and panic selling and short-sellers forced the KLSE index down by more than 350 points.

There was a moderate recovery in the last quarter of the year but prices began sliding again at the start of 1982 as the prolonged global recession began to bite harder into the local economy.

The current KLSE index is around 360, the lowest in 24 years. Most analysts do not foresee any improvement until the end of the year or even longer.

For the first six months of this year a total of 419m units,

valued at ringgit 1.5bn were traded on the KLSE compared with 1.017bn units value at ringgit 5.124bn during the corresponding period last year and 1.636bn units valued at ringgit 8.058bn for all of 1981.

Market capitalisation of the 292 securities traded on the exchange at the end of June this year was ringgit 49.1bn compared with ringgit 65.8bn at the same time last year.

W.S.

Finance Minister Tengku Razaleigh.

Incorporated a local entity, by 1990 the foreign banks have to reduce their own stakes to 30 per cent.

Originally the banks had argued for majority control over their Malaysian operations because on a general basis the objective of the New Economic Policy had already been achieved. But the Government was insistent that foreign equity in any Malaysian bank should not exceed 30 per cent.

With Chartered and HSBC restructured the pressure will be on the 14 other foreign banks. Some feel, however, that those with only one or two branches will be left alone. "The Government is only interested in the big fish," says one American banker.

The "big fish" apart from Chartered and HSBC, are the Singapore banks led by Overseas Chinese Banking Corp. with 25 branches, Ching Khiau (16) and Overseas Union Bank (12).

A foreign bank which is deemed to have complied with the new economic policy, will enjoy the benefits accorded to local banks. They will not be barred from opening new branches, will be able to accept deposits from Government and statutory bodies and enjoy a

Congratulations to Malaysia on its 25th Anniversary of Independence

Through local manufacture and the activities of our locally managed companies, ICI is proud to be associated with the development of Malaysia and the needs of Malaysians.



MALAYSIA VIII

Energy and Industry

Malaysia does not rank all that high in the oil states' table but its offshore resources are proving a useful help when recession is hitting its traditional commodity exports. They are also seen as valuable fuel and feedstock for the country's industrialisation programmes.

Offshore fields linked to ambitious development plans

Oil and gas revenues prop economy

MALAYSIA'S oil and gas reserves are not large enough to provide a panacea for the country's economic ills but at a time of deepening world recession they are allowing the Government to apply a gentle brake rather than a bring development spending to an emergency stop.

Over the past six months the state oil company Petronas has responded to Government pressure to boost oil earnings by raising output from an average 260,000 barrels-a-day (b/d) last year to a target for 1982 of 290,000 b/d. As it is not a member of Opec it has been free to raise output—unlike neighbouring Indonesia.

But Mr Rastam Hadi, managing director of Petronas, has made it clear that oil and gas should not be seen as a cure-all for government financial problems: "There is a very strong case for keeping resources in the ground. But at the same time governments need money and it is not much use keeping the oil in the ground when people are starving or living in poverty. Therefore we are following Buddha's golden middle path."

Malaysia has the world's 22nd largest oil reserves, estimated at 2.5bn barrels, and the world's 13th largest gas reserves, about 30 trillion cu metres. It has about 50 fields, eight of them major. They lie offshore the two eastern states of Sabah and Sarawak and offshore the peninsular state of Trengganu.

Earnings from oil exports have risen from M\$852m in 1975 to M\$6.9bn last year, accounting for almost 27 per cent of all export earnings. While LNG comes on stream in January next year an additional M\$1bn will be added to exports, with gas export earnings planned to quadruple over the next four years.

The three oil companies most active in Malaysian waters—Shell, Esso and Petronas Carigali—have steadily increased spending on exploration and development drilling. Petronas alone has raised spending from M\$275m in 1979 to M\$564m last year and it is likely to remain at this level over the coming four years, with an average of two new contracts

areas being opened up every year.

Malaysia's reserves are comparatively difficult to raise. They are in deep water, up to 150 metres offshore, and in a salami of sedimentary deposits which makes reservoirs small and easy to miss. Fields rarely last more than seven to 10 years.

At the same time, the quality of Malaysian crude is high—between 41-44 API with a sulphur content of less than 0.1 per cent. This means Malaysia can still charge a substantial premium over other oils. At the peak in mid-1980 oil was worth US\$41 a barrel. Miri Marker crude now earns US\$39.60 a barrel, with blends ranging from US\$35.10 to US\$37.30.

By comparison with other parts of Asia, Malaysia's waters have been fairly thoroughly explored so the chances of major new finds are small. Nevertheless, the likelihood of modest new discoveries is thought to be high.

So Malaysia's days as a net exporter of oil are clearly numbered. Domestic consumption currently stands at

180,000 b/d and is growing at about 2 per cent a year. Rastam Hadi predicts that the country will be a net importer in the early 1990s, with gas reserves providing an extra three or four years of leeway.

It is from this perspective that Petronas' articulate managing director sees the current world glut of oil as a temporary phenomenon.

"There are only certain reserves in the world and consumption continues to grow. I see scarcity coming up. Maybe this does not apply over the next three years but in the longer term shortages are inevitable. There is a backlog of certain scarcity."

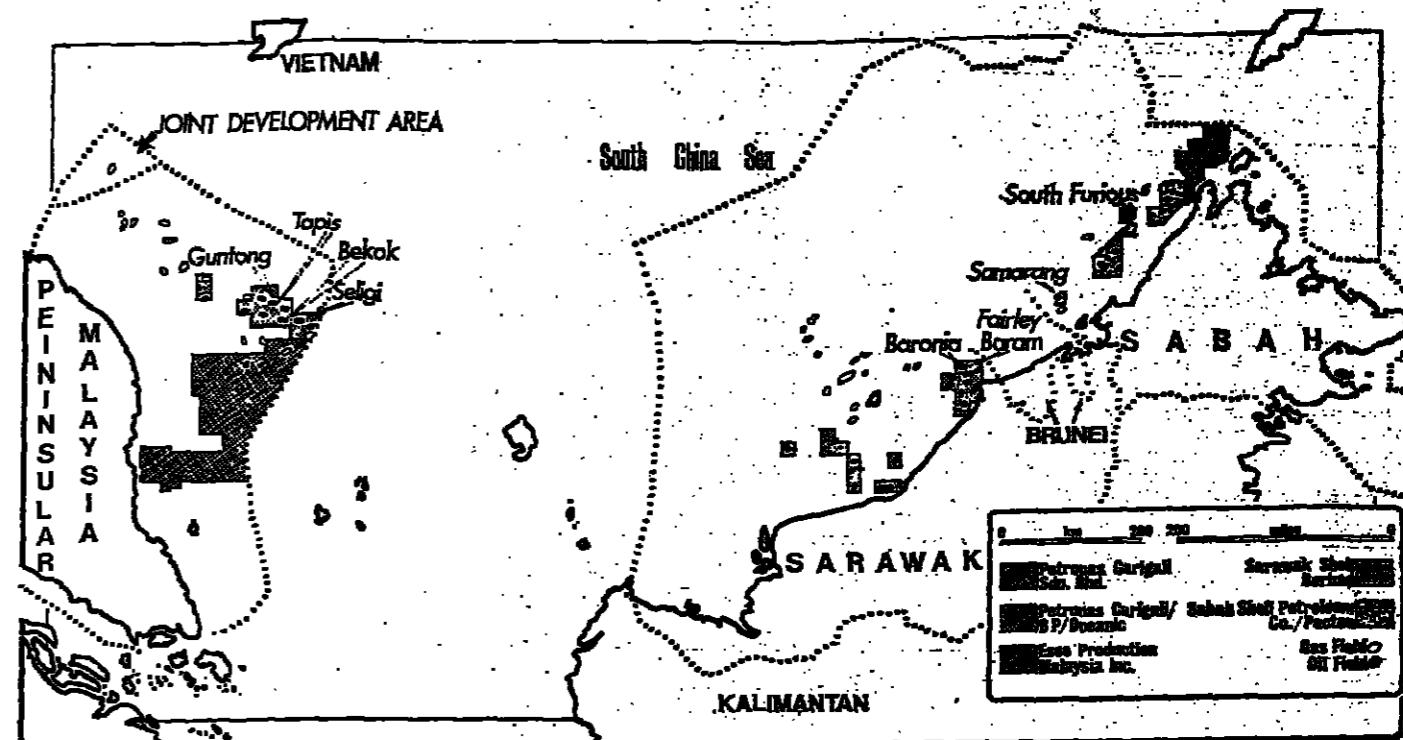
While Malaysia's oil and gas reserves last, they are likely to play a critical role in the country's development. Gas coming onshore in Bintulu in Sarawak is to be the feedstock for a range of ambitious new development projects. The LNG plant will in due course provide Japan with 6m tonnes of LNG a year, 20 per cent of all its gas needs. A crude oil terminal and a urea/ammonia plant are being built, along with palm oil tanks.

The Bintulu Development Authority also has plans for an aluminium smelter, an iron ore reduction plant and a steel furnace, though recent cuts in Malaysia's federal development spending plans are likely to mean these projects being put on ice for a while.

Further along the Borneo coast in Labuan in Sabah associated gas being piped onshore from the Samarang and Erbwest fields is to be used for a sponge iron plant, a methanol plant and a host of smaller developments.

Gas coming onshore in Trengganu is likely to be for domestic use, making gas the main fuel for Malaysia's industrialisation plans in the years ahead.

D. D.



Wedded to industrial projects despite adverse times

MALAYSIA is launching into the most ambitious phase of its industrialisation programme—development of heavy industries—at an inauspicious time.

Recession has thrown up a worldwide surplus of capacity in steel, ship-building, oil refining and manufacturing. Within Malaysia it has led to a contraction in demand and a squeeze on revenues, forcing big cutbacks in public spending.

Many foreign industrialists argue that apart from the bad timing the Malaysian market of 13m people is too small to support a heavy industrial sector.

Despite these obstacles the Malaysian Government remains singularly undaunted.

Mr Rastam Hadi, managing director of Petronas, the national oil corporation, perhaps best summed up the Government's attitude when he said: "Suppose there is a surplus of restaurants. Would a person building his own house leave out the kitchen?"

Tan Sri Jamil Jan, executive chairman of the Heavy Industries Corporation of Malaysia (HICOM), concedes the Malaysian market is small but is confident that even so it can support the projects his newly formed corporation is undertaking.

HICOM and Petronas—both government agencies—are spearheading the heavy industry programme, with the latter taking charge of oil and gas-related projects such as the Bintulu liquid natural gas field, the urea factory and oil refineries and the former the non-oil industries.

A letter of intent had also been signed with another Japanese consortium, in which Nippon Steel is involved, for a \$250m 600,000-tonnes cold rolling steel mill, also at Telok Kalong.

HICOM is re-examining the project. It does not want to be caught with a plant whose capacity exceeds local demand, because for the past three years demand for cold steel has been

Sarawak—although the Malaysian authorities are in two minds whether to allow them to exploit the tremendous hydro-power potential of Sarawak's rivers for cheap energy.

Malaysia's manufacturing sector has grown rapidly since independence and now accounts for 21 per cent of Gross Domestic Product. The Government's import substitution policy of the 1960s and its labour-intensive export-oriented policy of the 1970s has been highly successful.

The policy of the 1980s is to encourage greater agro-based processing and higher value goods instead of the sensitive textile and electronic assembly factories which employ tens of thousands of workers at wages as low as \$2.5 a day.

Manufacturing has not been spared by the recession. Output declined by 1.8 per cent during the first quarter of 1982, compared with 6 per cent growth in 1981 and 12 per cent growth annually during the 1970s.

Exports of manufactured goods fell sharply by 23 per cent between January and March this year to 1.190bn ringgit, with textiles and semi-finished electrical goods the hardest hit.

Taipei Textiles, one of the biggest and most modern companies with 2,300 workers, is working 24 hours a day, seven days a week and yet is only breaking even. No wonder virtually every Malaysian textile company is diversifying into other areas of activity, particularly property development.

W. S.

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THE FAILURE OF CURRENCY FLOATING

The speculators are missing

By David T. King

THE ONLY thing that is perfectly clear about today's volatile and uncertain exchange markets is that we have been here before. But really, where that exchange rate flexibility is necessary and desirable. But the big swings in exchange rates, typical of the floating system, are widely seen as costly and even destabilising. More rational exchange rate movements in a free float seem to require greater confidence in established economic relationships in forecasting currency changes.

Each of these sea changes went so far that it set in motion underlying current account adjustments which, in turn, eventually caused a further massive exchange rate reversal. The regularity and economic consistency of these broad swings—in short, their predictability—expose the key and continuing problem of the floating exchange system: the absence of "stabilising speculation."

It is not difficult to identify the most important cause of major dollar movements during the decade of floating.

There have been three major movements of the dollar since floating began, coinciding with three clear trends in the current account. The dollar has steadily depreciated during periods of current account deficit, when the accumulated current account declines, and persistently appreciated through periods of current account surpluses.

The problem is that the markets carry the exchange rate movement well beyond what is required for the correction of such a current account imbalance. Thus, in a period after the real exchange rate has moved enough to eliminate a current account imbalance but before the current account has had time to adjust, the exchange markets continue to position themselves on the basis of observed though inevitably transitory, current account information. By the time the current account actually turns, the real exchange rate is so far under- or over-valued that a massive current account reversal is unavoidable and the cycle starts all over again.

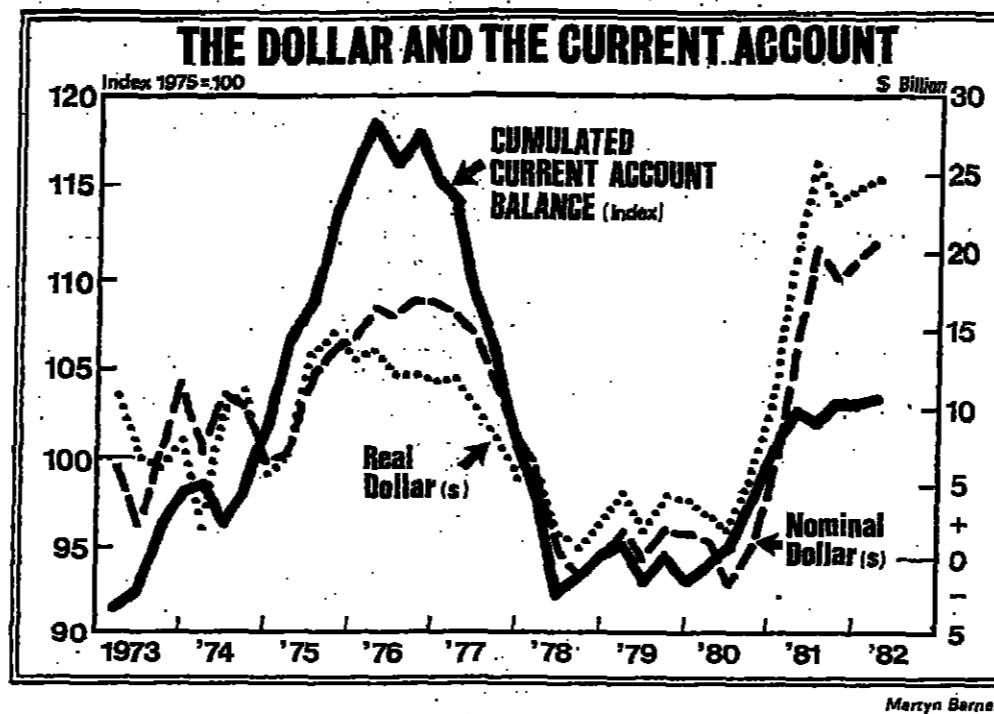
In an important study published in 1978,* Professor Patrick Minford of Liverpool University, a firm proponent of floating exchange rates, identified these dynamics in the British pound's exchange behaviour. They characterised, he

suggested, the "infancy of floating."

As the child grew up, its experiences would teach it the reliable and powerful, if lagged, relationship between real exchange rates and current accounts. When the foreign exchange market came of age, participants would adopt sizeable counter-positions as real exchange rates moved beyond levels necessary to correct trade imbalances. In other words, stabilising medium-term speculation, based on established fundamental economic relationships, would become common, and the extremes of exchange rate fluctuation would be substantially dampened.

In fact, however, after nearly a decade of trial and error, floating is still a child, afraid of the dark in a medium term exposed foreign currency position.

Perhaps the sight of potential cash returns will encourage the maturation of floating. The most straightforward bet on the fundamentals of international trade involves taking a financial position in response to an extreme movement of the real exchange rate, calculated in any simple way. In historical terms, "extreme" may be defined as something on the order of 10



per cent. That percentage over-valuation of sterling, caused by the Baldwin-Churchill administration's return to the gold standard in the late 1920s, brought the British economy to its knees within five years. The 10 per cent overvaluation of the dollar by 1970 resulted in the collapse of the Bretton Woods System.

If, from the 1973 start of generalised floating, one had adopted a basic rule of taking a cross-currency counter-position following any 10 per cent movement of the dollar's real exchange rate, the profits would have been enormous. As shown in the accompanying chart, one would have gone short in dollars in late 1973, just at the dollar-Deutsche mark turning point and only slightly below the dollar's nominal peak of late 1976. After a substantial gain, the position would have been reversed, to long in dollars, in mid-1978, again ahead of the turning point, but only moderately, especially relative to the dramatic appreciation of the dollar that began in mid-1980.

By mid-1981, a short dollar position would have been adopted, at a DM/dollar rate in the upper 2.30s. This position would again have been early, but only slightly below

the spot dollar's peak in the third quarter of 1981, and well situated for the fourth major reversal in dollar exchange rates which will come in the quarters ahead.

One of the easiest ways for the corporate and government sectors to take advantage of these opportunities is through cross-currency diversification of their nominal medium-term borrowing requirements. The statistical evidence shows that the response of current account balances to real exchange rate changes is fully underway within three years. Thus, for example, the 10 per cent rule, triggering a short-dollar position in mid-1978, would have prompted U.S. corporations and the U.S. Government to finance domestic operations by borrowing at a three-year maturity in, say, Deutsche Marks. A U.S. entity borrowing \$10m would have issued a DM 20m, three-year bond in mid-1978, at an interest rate of about 6.5 per cent. Assuming annual interest payments and retirement in June 1981, the net dollar cost of the borrowing would have been \$400,000—an annualised interest rate in dollars of 13 per cent. Had \$10m been raised in U.S. credit markets for a similar period at the interest

rate of about 9 per cent prevailing in mid-1978, the net cost of servicing the debt would have been \$2.7m.

Even with current interest rate differentials, the size of the broad exchange rate movements typical of floating promises that dollar borrowing will at worst break even with Deutsche Mark borrowing over the next three years, more likely doing several percentage points better. Certainly it is a dangerous illusion for U.S. corporate treasurers to look now at lower interest rates abroad as an opportunity for substantially reducing financing costs and achieving more optimally diversified debt portfolios. Stabilising speculation will hopefully become a more normal activity, and the floating exchange rate system will finally come of its own.

Governments can use cross-currency debt diversification to moderate extreme exchange rate swings while reducing interest expenditures. This bond-based technique avoids the monetary effects of exchange market intervention. The German Government could, long before now, have easily generated enough capital inflow through the issue and conversion of dollar-denominated securities to stabilise the DM rate, simply re-denominating a

relatively small proportion of its ongoing new debt.

Just as German corporate sector conversion of borrowed dollars has no monetary effect in Germany while supporting the DM rate, neither do government borrowings.

An efficiently operating floating exchange rate system is disciplined by internationally integrated financial markets. This was what the academic proponents of floating envisioned in promising fluidly stabilising speculation that would keep rates close to fundamental trends. In fact, however, finance was not really ready for floating, and capital markets are still not at all well-integrated across currencies.

Cross-currency liability management is extremely rare, and all but a tiny proportion of medium-term investment is confined to the home currency. Even governments, charged with macro-economic stabilisation, typically take long-term cross-currency positions only as a last resort in an exchange rate defence package. This can, and should, change. Intelligent cross-currency financial positions, since they are based on the prime mover in economic adjustment—real relative prices—carry low risk and are relatively profitable.

Perhaps as the fourth major movement of the dollar emerges, coinciding with the fourth major reversal of the industrial countries' current account pattern, governments and corporations will come to recognise the opportunities offered by exchange rate movements for substantially reducing financing costs and achieving more optimally diversified debt portfolios. Stabilising speculation will hopefully become a more normal activity, and the floating exchange rate system will finally come of its own.

The alternative is disturbing: the two major inflation shocks of the 1970s were not unrelated to the major dollar depreciations that preceded them and didn't turn again for the short end of the stick.

—Sir, Minor, Substitution Effects, Speculation and Exchange Rate Stability (North-Holland, Amsterdam, 1978).

Dr King is vice-president, International Finance Department, at Citibank, New York, and a member earlier this year of the Federal Reserve Bank of New York and the OECD in Paris.

Lombard

Stark arithmetic of productivity

By Max Wilkinson

HERE is a simple question with a disturbing answer. If Britain had the same overall productivity as Italy, but output remained at its present level, how many people would have been unemployed in August?

The answer is a matter of arithmetic based on the National Institute of Economic and Social Research's latest estimate (for 1980) that Italian overall output per employee is about 10 per cent higher than the UK. This means that with Italian productivity, the UK would need about 2m fewer workers to produce the same output and total unemployment would now be 5m.

Most of Italy's superiority is in its manufacturing industry which is about 50 per cent more efficient than Britain's. If the comparison is made with a country such as Germany or the Netherlands, which are more productive in most sectors of the economy the results are even more startling.

With output unchanged and West Germany's overall productivity, UK unemployment would be 8m. On the same basis, the UK had the same productivity as the U.S., 12.5m people.

These are, to be sure, only arithmetical truths, and they do not take account of the 10 per cent improvement in UK manufacturing productivity which occurred last year. Moreover, the comparison with the U.S. should not be taken too seriously because of the huge economies of scale there. However, these comparisons do say quite a bit about the constraints on policy.

Look at the question another way: it would clearly be unrealistic to expect UK productivity to rise by 35 per cent to match West Germany's present performance without an accompanying increase in output.

If output grew at exactly the same rate as productivity (output per person), the total number of jobs would remain the same. So the second question is: how many years of matched growth of output and productivity would be needed for Britain to reach West Germany's present performance?

The answer clearly depends on the rate of growth. At the rate expected for this year—1 per cent—it would take 33

years. However, if we assume a more optimistic average of 3 per cent growth a year, it would take 10 years to catch up with Germany as it is now. Since France, Belgium, and the Netherlands have slightly higher overall productivity than Germany it would take rather longer to catch up with them.

At the end of this 10-year

spurt Britain would still have its present level of unemployment—3m adults (ignoring population changes)—and it would still be 10 years behind its Continental competitors.

All this, it must be emphasised, is just arithmetic but it shows very starkly what Sir Geoffrey Howe had in mind when he said last week that high unemployment would be with us for a long time and that the road to restored competitiveness would be a slow one.

Sir Geoffrey has said repeatedly that the key to reducing unemployment must be improved competitiveness, and that must come from higher productivity as well as more moderate wage settlements.

But the Government has been less anxious to emphasise a sustained improvement in productivity without horrific unemployment unless it also has a strategy for rapid growth in real output for the medium term.

Perhaps the Government had no choice but to focus its initial efforts on forcing down people's expectations for inflation; and one of the consequences of its tight policies does seem to have been the sharp rise in productivity last year. But there is a strong argument that the focus must now change towards a major political effort to raise people's ambitions for growth.

It is hard to see how this could be achieved without more official discussion about how the Government might prime the pump and then help to keep growth going.

The data for the calculations are as follows: UK employed labour force first quarter 1982: 22.4m, unemployment (adult) August: 3.28m. Total productivity for 1980: (UK=100) West Germany 134.140, U.S. 160-200, France and Netherlands 150, Belgium 140 and Italy 110.

Letters to the Editor

Mrs Thatcher, Varley, and the grass roots

From Mr F. Whitehouse
Sir—Mrs Thatcher shouldn't be tempted to fall for Eric Varley's version of what the workers think of unemployment. He's as far from the grass roots as an absentee landlord and puts on the old record from force of habit every time new figures appear.

But the fact that he is out of touch with what is going on down below shouldn't stop her putting her crew urgently to work on bringing her ahead of the Opposition in an understanding of the country's new mood.

Labour was thrown out at the last Election because their old supporters felt let down by their overall performance. Maggie's best chance of winning the next election is by seeing to it that voters don't develop that same sickened sense of her.

She has a lot going for her. Even in this Socialist Republic

of South Yorkshire there is not the old readiness—in private—to shovel all the blame for our present plight on the Government. It is getting into countless working minds that you cannot have both a soft and a secure job. Not in industry anyway.

Just as they are rapidly realising that you cannot cry out for State protection of home industries and at the same time stuff your garage, wardrobes and house with foreign-made goods, they are slowly accepting that they have to be as ready to sell cheap as they have been to buy. Some of Mrs Thatcher's arguments are bearing fruit. In future she will get a more receptive hearing.

The apparent "ganging up" of the CBI with the TUC to squeeze her into softening her fiscal policy isn't doing her all that much harm. Too many workers think they are being

Piece work and day rates

From the Managing Director, Fine Tubes

Sir—It would be interesting to know the authority on which Mr T. Finnegan (August 25) bases his claim that moving from piece-work to day rates must involve acceptance of a 20 per cent reduction in employee effort.

This dangerous fallacy must not go unchallenged. Like so much else in life one gets what one deserves and this applies as much in management as in private life.

For too long much of British management has used piece-work as a crutch and an easy alternative to the prime responsibility of leadership. If managers will earn the trust of their employees by, among other things, consistent, fair treatment and the regular provision of all the facts they will find that nothing is impossible, including the maintenance of high productivity.

Rolls-Royce has got it right: if it fails it will not survive. It will succeed as many others have done before. But it calls for dedication, long hours and hard work.

If I correctly recall a famous British Institute of Management survey, the majority of British managers would prefer to be gentlemen-farmers. Perhaps that is one of the main causes of our present national problems.

T. M. Barclay,
Fine Tubes,
Estover,
Plymouth.

Frustrations of delivering letters

From Mr J. R. Potts

Sir—I have recently been involved in delivering envelopes for a charitable appeal to a large number of firms in the City of London, and have found a frustrating experience.

Many buildings do not show a street number, and a significant proportion of corner buildings do not show the street name. Newly-constructed buildings are major offenders.

Can I prevail upon your readers in the City to check whether their own building is an offender, and in which case to do something about it.

J. R. Potts,
Lloyd's Chambers,
91-93, Crutched Friars,
EC3

Bank on Grindlays
in the Pacific Basin

The Grindlays Bank Group is a British based organisation with over 200 branches and offices in more than 40 countries, providing a wide range of banking and financial services.

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Elsewhere in the region Grindlays Bank has branches in Japan, Korea, Singapore and Taiwan, a subsidiary in Australia, and representative offices in Indonesia and Malaysia, where the Group is also a major shareholder in Asian International Merchant Bankers Berhad.

In addition the Grindlays Brands Insurance Broking Group has an office in Singapore and an association with P.T.I.B.S. Insurance Broking Services in Jakarta.

So whether you require trade finance, bonding facilities, foreign exchange, corporate banking, eurocurrency finance or a wide range of other financial services, you can bank on Grindlays in the Pacific Basin.

Grindlays Bank Group

Grindlays Bank p.l.c.
Head Office: 23 Fenchurch Street, London EC3P 3ED.
Tel: 01-628 0565. Telex: 885043/GRINDLY G.

Grindlays Asia Limited, 14th Floor China Building, Queen's Road Central, Hong Kong.

Tel: 2565577. Telex: 75132/AVREN HX.

Malaysia: Grindlays Bank p.l.c., 2 Lebuh Ampang, Kuala Lumpur.

Tel: 25729/26241. Telex: 31054/GRINDLY MA.

Branches or offices in: Australia • Austria • Bahamas • Bahrain • Bangladesh • Brazil • Canada • Colombia • Cyprus • England • France • Germany • Ghana • Greece • Hong Kong • India • Indonesia • Iran • Japan • Jersey • Jordan • Kenya • Republic of Korea • Malaysia • Mexico • Monaco • Oman • Pakistan • Qatar • Scotland • Singapore • Spain • Sri Lanka • Switzerland • Taiwan • Uganda • United Arab Emirates • United States of America • Zaire • Zambia • Zimbabwe

Companies and Markets

UK COMPANY NEWS

**THE HONGKONG
BANK GROUP**
announces that
on and after
1st September 1982

the following annual rates
will apply

Base Rate 10½%
(Previously 11%).

Deposit Rate (basic) 7½%
(Previously 8%).

**The Hongkong and Shanghai
Banking Corporation**

**The British Bank
of the Middle East**
Mercantile Bank Limited
Antony Gibbs & Sons, Ltd.

**Hanover
Invs. at
£30,000**

Including interest received of £141,000 for the period, pre-tax profits of Hanover Investments (Holdings) amounted to £30,000 for the year ended February 28 1982, on turnover of £1.34m.

Figures for the previous year were £233,000 and £4.99m respectively, but these included trading profits of £26,000 and turnover of £3.26m in respect of the tobacco and engineering businesses which were disposed of discontinued during that year. The company was formerly Somnic (Holdings).

The leisure division suffered substantial losses in 1981-82—these have been effectively curtailed since the year-end—which adversely affected the steady progress made by the other trading divisions, directors state.

The group's current trading position shows an improvement over the corresponding period last year, they add.

The dividend is maintained at 1.85p net per 10p share with a same-as-gain final payment of 1.15p.

There was a tax credit of £34,000 (£175,000 debit) and an extraordinary credit of £44,000 (£229,000).

**ANGLIAN AND
NW WATER**

The Monopolies and Mergers Commission has been allowed more time to report on its investigation into the sewerage functions of the Anglian and North West Water Authorities. The reporting period has been extended by one month to October 2.

At the year-end shareholders' funds stood at £7.08m (£8.14m).

Turnover was valued at £7.2m (£7.39m) and net current assets came to £4.97m (£5.75m).

During the year there was an increase in working capital of £1.2m (£2.7m decrease).

Current cost adjustments increased the taxable losses to £1.47m (£1.58m) and the losses per share to 49p (96p).

Meeting, Rainham, Essex, September 23, noon.

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UK COMPANY NEWS

Invest. Trust of Guernsey improvement

Net revenue of the Investment Trust of Guernsey advanced from £23,000 to £31,000 for the first half of 1982, but the board does not expect that this rate of increase will be maintained for the second six months. Net revenue for the whole of 1981 totalled £614,000.

The interim dividend is being raised from an equivalent 1.8p to 2.1p gross per 50p share and shareholders will also be given the right to elect to receive new shares in lieu of the net cash dividend.

Net asset value per share at June 30, 1982, was 112p, as against 113p six months earlier. The market value of investments came to £13.7m (£14.25m) and cash on short-term deposit increased from 20.64m to £1.3m.

MORGAN CRUCIBLE

At separate meetings of the holders of the 5% redeemable undebenture stock and the 5% irredeemable undebenture loan stock of Morgan Crucible, passed extraordinary resolutions approving the terms of the repayment of each of the stocks.

Accordingly the proposals for the repayment of 561 per cent of the 5% per cent stock and 588 per cent of the 6% per cent stock have become unconditional.

SUPRA GROUP LAND PURCHASE

Supra Group has purchased from Anchard Development 1.75 million sq ft of freehold land in Boreham, near Luton, for £20,000. The land, on which planning permission has been granted, is adjacent to an existing Supra freehold property occupied by a subsidiary, Supra Automotive.

The consideration has been satisfied by the issue of 233,334 ordinary shares of Supra at 30p each and credited to the vendor as fully paid.

OLYMPUS & ASSOCIATED INVESTMENT

Exchange of RIT and Hume debenture stocks approved

At meetings held yesterday the holders of RIT debenture stocks and of Hume Investment Trust Company debenture stocks approved and sanctioned the proposals for the exchange of new debenture stocks of RIT and Northern for the existing debenture stocks of RIT and Northern.

Debenture of the new debenture stocks of RIT and Northern issued in exchange for listed RIT debenture stocks are expected to commence on August 31 for deferred settlement on September 21.

In order to simplify the borrowing structure of the enlarged group and to facilitate transfer of assets by RIT to RIT and Northern, Law Debenture Corporation, trustee for the holders of the J. Rothschild Investment Holdings (JRI) (a

14.25 per cent Guaranteed bonds due 1990, has, at the request of JRI, the guarantor (RIT) and RIT and Northern, concluded a modification of the trust deed. The modification involves:

(a) Giving of a guarantee in respect of the bonds of RIT and Northern. In addition to, but (immediately prior to any members voluntary winding up of the company) in substitution for the stocks of RIT and Northern.

(b) An increase in the annual rate of interest on the bonds of 1.4 per cent as from August 15, 1982.

(c) The introduction of a prohibition on the disposal (without the consent of the trustee) of assets by RIT and Northern and its subsidiaries to any holding company of RIT and Northern.

Hanson Trust's £1.8m sale

Continuing its policy of concentrating resources on its main battery activities, Hanson Trust's British Ever Ready division announces the sale of its 84 per cent interest in A/S Skaland Grafiverk, the Norwegian mining subsidiary, and its Advanced Projects Group (APG), at Abingdon.

Skaland, which is being sold to Arco Graphite Inc for £1.2m, has borrowings of £1.2m and incurred a loss of £27,000 for the

year ended February 1982 on net assets of £500,000.

The existing trading relationship between British Ever Ready and Skaland for the purchase and factoring of graphite are being maintained, directors state.

A consortium comprising institutional investors and senior executives of APG have formed a new company, Venture Technology, to purchase the assets of APG for £55.5m and to take over the lease of the premises.

RESULTS AND ACCOUNTS IN BRIEF

PITMAN (published, printer, college textbooks) results for year ended June 30, 1982, 58p (106p).

STONEHILL HOLDINGS (domestic furniture maker) results for the 52 weeks to April 4, 1982 reported June 27. Shareholders' funds £4.92m (£2.09m). Fixed assets £2.67m (£2.04m), including bank loans £3.51m (£2.82m); increase in working capital £2.15m (£1.97m decrease). Compensation £6,000. Meeting: Southampton Plaza, W.C., September 20, 1982.

The most tangible assets of Phoenixia and Travellers Joy are valued at £50,000 and profits for the year to September 30, 1981 were £13,700.

TRUST—Net asset value per share at June 30, 1982, 58p (106p).

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This advertisement complies with the requirements of the Council of The Stock Exchange.

U.S. \$50,000,000

Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft

(Incorporated in the Republic of Austria with limited liability)



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Subordinated as to payment of principal and interest

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Chase Manhattan Limited

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County Bank Limited

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Dentsche Bank Aktiengesellschaft

Kredietbank S.A. Luxembourgeoise

Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)

Merrill Lynch International & Co.

Orion Royal Bank Limited

Salomon Brothers International

Swiss Bank Corporation International Limited

Westdeutsche Landesbank Girozentrale

The issue price of the Bonds is 100 per cent. The Bonds have been admitted to the Official List by the Council of The Stock Exchange, subject only to the issue of the temporary Global Bond.

Interest is payable in arrears on 1st September, the first payment being made on 1st September, 1983.

Full particulars of the Borrower and the Bonds are available in the Exetel Statistical Service and may be obtained during usual business hours up to and including 14th September, 1982 from the brokers to the issue:

Cazenove & Co.,
12 Tokenhouse Yard,
London EC2P 7AN

Buckmaster & Moore,
The Stock Exchange,
London EC2P 2JT

31st August, 1982

Bank of Ireland announces that with effect from close of business on the 31st August, 1982 its Base Rate for Lending is reduced from 11% to 10 1/2% per annum



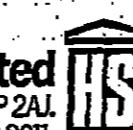
Hill Samuel Base Rate

With effect from the close of business on August 31st, 1982

Hill Samuel's Base Rate for lending will be reduced from 11 per cent to 10 1/2 per cent per annum.

Interest payable on the Bank's Demand Deposit Accounts will be at the rate of 7 1/2 per cent per annum.

Hill Samuel & Co. Limited
100 Wood Street, London EC2P 2AL
Telephone: 01-628 8011



Sceptre Resources CS\$978,000 in loss

IN THE first half of 1982 Sceptre Resources — whose operations were combined with the Canadian activities of Francana Oil and Gas on May 14 1982 — increased revenue by 30 per cent to \$34.1m to \$7.96m. The results reflect the combined entities after acquisition.

Cash flow from operations declined approximately 7 per cent to \$2.62m (22 cents per share) from \$2.83m (33 cents per share).

However, the operations produced losses of \$978,000 compared to earnings of \$8,000. After deductions for dividends paid on outstanding convertible preferred shares, losses per share emerged at 17 cents compared with 12 cents.

Capital spending during the period amounted to \$21.1m. Approximately 50 per cent of this was made in the U.S. and 14 per cent in Abu Dhabi, UAE and 14 per cent in Canada.

During the six months, Sceptre participated in a total of 68 gross wells in Canada, 17 in the U.S. and two overseas — resulting in 18 oil or gas potential oil wells, 22 natural gas wells and 20 abandonment or spud wells.

Primarily as a result of the Francana acquisition, Sceptre's natural gas production for 1982 increased 130 per cent to 12.7m cu ft a day and crude oil production increased by more than 500 per cent to 790 barrels a day.

On a pro forma basis with Francana, Sceptre's gross proven and probable oil and gas reserves are estimated by independent engineering consultants to be in excess of 22m barrels of oil and approximately 300cu m ft of natural gas.

For 1983, when Sceptre will experience the full impact of the

Francana acquisition, production rates, based on present reserves as projected in the independent consultants' reports are estimated to be 3,000 barrels per day of oil and 44m cu ft per day of natural gas.

Additionally, the company has available reserve capacity to significantly increase production above those levels in the event of an improvement in demand for Western Canadian crude oil or an improvement in natural gas export and domestic markets, the company says.

It has announced the intention to sell its investment in Canadian Resources, which has a current market value to Sceptre of over \$50m.

Current activity in Canada includes an active programme of drilling for oil in Alberta and Saskatchewan. Sceptre is encouraged by recent measures introduced by the Federal and both provincial governments. In addition the company is drilling a variety of wells in natural gas-prone regions where contracts are available.

In the U.S., Sceptre reports recent significant drilling success in the Williston Basin, Wyoming and in the Gulf Coast region.

Sceptre is presently participating in a significant Prairie du Chien lease in Milwaukee county, Michigan.

The well, Patrick Glide 1-25 is a direct offset to the Dart Edwards 7-36 well which was completed in the Prairie du Chien in 1981 and tested at 12.3m cu ft a day. Results are expected in September 1982.

Internationally, Sceptre is participating, as to a 5 per cent interest, in a well on Block J/5 in the German sector of the

North Sea.

The well, Patrick Glide 1-25

RECENT ISSUES

EQUITIES

| Issue price | Amount paid up | Latest Renunc data | 1982 | | Stock | Closing price | + or - | Dividend | Yield |
|-------------|----------------|--------------------|------|-----|-----------------------|---------------|--------|----------|--------------|
| | | | High | Low | | | | | |
| 45 F.P. | — | 45 58 | 58 | 58 | Anglo-Nordic Sp. | 28 | — | 8.89 | 2.0 3.3 21.4 |
| 45 F.P. | — | 52 57 | 57 | 57 | Antarctica Mtdg U. | 75 | — | 3.6 | 1.3 2.3 2.3 |
| 145 F.P. | 30/7 | 20 11 | 11 | 11 | Argyll Foods Warr. I. | 19 | — | — | — |
| 145 F.P. | — | 24 24 | 24 | 24 | Atlantic Res. Int. | 23 | — | 0.65 | 1.3 4.0 24.7 |
| 11 F.P. | — | 78 44 | 44 | 44 | Bio-Isolates 10p. | 68 | — | — | — |
| 425 F.P. | 10/8 | 45 45 | 45 | 45 | Bogdan Mining 10p. | 29 | — | 1.5 | 2.2 5.1 7.5 |
| 425 F.P. | 10/8 | 44 44 | 44 | 44 | Bogdan Mining 10p. | 29 | — | 2.2 | 2.2 5.1 7.5 |
| 1 F.P. | 28/11 | 106 96 | 96 | 96 | Ecocubic New Orkla | 96 | — | 1.81 | 4.3 4.3 4.3 |

FIXED INTEREST STOCKS

| Issue price | Amount paid up | Latest Renunc data | 1982 | | Stock | Closing price | + or - | Dividend | Yield |
|-------------|----------------|--------------------|------|-----|------------------------|---------------|--------|----------|-------|
| | | | High | Low | | | | | |
| 80 F.P. | — | 80 57 | 57 | 57 | Antarctica Tech. Sp. | 54 | — | 55.5 | — |
| 110 F.P. | 17/8 | 158 158 | 158 | 158 | Ent'g Europe Tech. Sp. | 1 | | | |

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When it comes to more down to earth, everyday business planning the Diary is equally invaluable. Generous space and disciplined graphics assist record keeping while the analysis section enables you to monitor monthly expenses, company performance and staff holidays.

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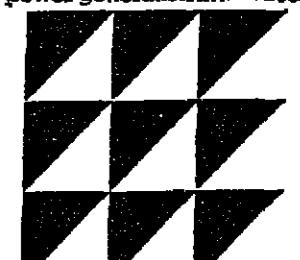
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Postcode

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William Press Group Tel 01333 6544

BUILDING AND CIVIL ENGINEERING

Approval for KWU 'convoy concept'

KRAFTWERK UNION AG (KWU), West Germany's leading nuclear power plant designer and builder, has finally received a green light for its streamlined nuclear plant planning procedure, the "convoy concept," which allows for the design and building of a series of stations based on the same basic plan.

Until now all West German nuclear power stations have been built on a one-off basis to meet the specific safety requirements of the individual site and the level of technology available at the time of its conception.

Moreover, the original designs have been subject to change throughout the construction period in order to incorporate the latest advances in safety and operating technology.

This has generated significant time delays and escalated construction costs. It has also made it virtually impossible for the nuclear construction industry to standardise its technology and led to an explosion in planning documentation.

In 1974, for example, the Biblis nuclear power station needed 2,000 planning and design documents. However, the Grafenrheinfeld nuclear power station commissioned this year, needed 15,000.

To overcome these problems KWU proposed a standardised construction programme whereby a series of nuclear power stations could be built over a limited time scale to the same basic design.

This it was argued, would enable more rapid approval by the relevant licensing authorities and enable the designers and constructors to produce more rational, standardised designs and work practices. The result would be faster construction times and cheaper construction costs.

KWU presented its convoy concept to West Germany's Federal and State authorities for the construction of a series of six nuclear power stations and approval was expected in

TOM SEALY

OVERSEAS CONTRACT

BALFOURS has signed a contract in association with Saudi Arabian consultants Dar Al Riyadh to study and update sewerage and stormwater designs for the city of Tabuk.

Previous design work carried out by others in the mid-1970s is to be revised and updated to cater for increased population

densities and water use. The consultants are to prepare fresh designs for additional development areas on the city outskirts.

The sewerage treatment facilities originally planned are to be relocated some 20 km outside the new city limits, and work on the preparation of a preliminary engineering design report has now started.

THE DEPRESSED U.S. housing market has forced some American home builders to do rather strange things, such as trying to sell log cabins at an equally depressed European housing market.

Until recently, log cabin construction in the U.S. was undergoing a major revival encouraged by the "back to nature" ecology movement, the socially mobile high-income earners looking for a trendy "country seat" and first-time buyers looking for a hospitable initial step onto the housing ladder. High interest rates and the subsequent recession have suspended all of that.

When things are bad at home, you naturally look further afield and, when it comes to long cabins, well surely Europe (the true originator of the log abode) is a safe bet. Or so some people thought.

One disappointed and perplexed log cabin manufacturer recently visited Germany summed up the European reaction thus: "Back home we think it's romantic getting back to our roots, but here a lot of people think it's plain primitive something that went out of fashion with the Vikings."

Another manufacturer, Green Mountain Cabins of Chester, Vermont, suggests that the

UK CONTRACTS

Lovell companies win £8m plus

COMPANIES in the LOVELL CONSTRUCTION group have secured more than £2.2m worth of new contracts with Farrow & Fawcett called "the team" called

either U.S. or French built plants, but that KWU cannot compete with these countries on the basis of price.

Lessons learned from the development of the convoy concept, which is largely based on the French system of standardised nuclear plant construction, could help KWU to trim its costs on foreign contracts without cutting corners.

TOM SEALY

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The job involves fitting out an existing 110,000 sq ft building to provide customer support facilities including electronic workshops, admin offices, plus staff and social facilities.

Except for the warehouse area, the building will be finished to office standards with suspended ceilings, demountable partitions and vinyl or carpeted flooring.

Services will include air conditioning and sprinkler fire protection.

CHESTERFIELD'S new central library in New Beestwistle Street is being built by FORD AND WESTON at a cost of £2.5m. The 3,960 square metre, six floor building, is said to incorporate many unusual design features and linked to any adjacent shopping centre, it will be one of the largest and most modern structures of its kind in the country.

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MONEY MARKETS

BY COLIN MILLHAM

The flight to quality

STRONG SIGNALS from the Bank of England produced the desired effect of forcing the clearing banks to cut another 4 per cent from base lending rates. But London began to show last week that it is not totally insulated from the problems of the U.S. banking system. The upward trend in period rates after sharp reductions in the Bank of England's money market dealing rates was not simply an adjustment after the over-enthusiasm of the previous week.

There are a very large number of U.S. banks trading in London, and the problems at home were obviously having an impact. News that Chase Manhattan expects no loss from the failure of the securities dealer Lombard-Wall will help restore some confidence, but the basic problem of the debts owed to U.S. banks remains.

BANK OF ENGLAND TREASURY BILL TENDER

| | Aug. 27 | Aug. 20 | | Aug. 27 | Aug. 20 |
|-------------------------------|----------|----------|--------------------------------|----------|---------|
| Bills on offer | £100m | £100m | Top accepted rate of discount | | |
| Total applications | £3096.9m | £491.02m | Average yield | 9.9176% | 9.9894% |
| Total allocated | £300m | £100m | Amount on offer at next tender | 10.1571% | 10.203 |
| Minimum accepted bid | £87.51% | £97.50% | Amount on offer at next tender | £100m | £100m |
| Accepted bids (minimum level) | 6% | 100% | | | |

FT LONDON
INTERBANK FIXING

| | Aug. 27 | Sterling 1983 | Certificate of deposit | Interbank | Local Authority deposit | Local negotiable bonds | Finance House Deposits | Company Deposits | Discount Market Deposits | Treasury Bills \$ | Eligible Bank Bills \$ | Fine Trade Bills \$ |
|---------------|---------|------------------|---------------------------|-----------|-------------------------------|------------------------------|------------------------------|---------------------|--------------------------------|----------------------|------------------------------|---------------------------|
| Overnight | | 9-11% | | — | — | — | — | — | — | — | — | — |
| 2 days notice | | — | — | 11% | — | — | — | — | — | — | — | — |
| 7 days notice | | — | — | 11% | — | — | — | — | — | — | — | — |
| Two months | | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10% | 10% | 10% |
| Three months | | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10% | 10% | 10% |
| Six months | | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10% | 10% | 10% |
| One year | | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10% | 10% | 10% |
| Two years | | — | — | — | — | — | — | — | — | — | — | — |

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| One year | | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10%-10% | 10% | 10% | 10% |
| Two years | | — | — | — | — | — | — | — | — | — | — | — |

THE DOLLAR SPOT AND FORWARD

| | Aug. 27 | Day's spread | Closes | One month | % p.a. | Three months | % p.a. |
|----------|----------------|-----------------|---------------|-----------|-------------|-----------------|------------|
| UK | 1.7225-1.7270 | 1.7260-1.7270 | 0.1000-0.0000 | 0.0000 | 0.00 | 0.00 | 0.00 |
| Ireland | 1.3910-1.4030 | 1.3910-1.3920 | 0.80-0.75% | 0.68 | 1.95-1.90% | 5.38 | 5.38 |
| Canada | 1.2245-1.2250 | 1.2280-1.2285 | 0.00-0.00% | -0.02 | 0.95-1.02% | 3.18 | 3.18 |
| Malta | 1.0400-1.0400 | 1.0400-1.0400 | 0.00-0.00% | 0.00 | 0.00-0.00% | 0.00 | 0.00 |
| Denmark | 0.65-0.67-0.65 | 0.67-0.67-0.65 | 0.00-0.00% | 0.00 | 0.00-0.00% | 0.00 | 0.00 |
| Denmark | 0.65-0.67-0.65 | 0.67-0.67-0.65 | 0.00-0.00% | 0.00 | 0.00-0.00% | 0.00 | 0.00 |
| W. Ger. | 2.4400-2.4750 | 2.4705-2.4715 | 0.45-0.40% | 0.05 | 2.05-2.15% | 2.79 | 2.79 |
| Portugal | 0.8450-0.8550 | 0.8525-0.8525 | 0.00-0.00% | 0.00 | 0.50-0.50% | 1.40 | 1.40 |
| Italy | 1.3610-1.3840 | 1.3800-1.3810 | 0.00-0.00% | -0.10 | 2.34-2.36% | 10.05 | 10.05 |
| Norway | 0.5700-0.6250 | 0.6025-0.6125 | 1.50-1.50% | -0.09 | 5.40-5.50% | 3.39 | 3.39 |
| France | 0.6250-0.6400 | 0.6450-0.6530 | 4.50-4.50% | -0.12 | 12.17-12.20 | 10.71 | 10.71 |
| Spain | 0.6045-0.6100 | 0.6085-0.6095 | 2.50-2.70% | 5.12 | 6.20-6.40% | 3.43 | 3.43 |
| Austria | 0.7180-0.7210 | 0.7210-0.7240 | 0.20-0.20% | 0.27 | 15.18-17.31 | 3.00-3.00% | 3.00-3.00% |
| Switz. | 2.0640-2.1020 | 2.0345-2.0595 | 1.18-1.18% | 0.63 | 7.65-8.40% | 3.40 | 3.40% |

CURRENCIES AND GOLD

Dollar improves

The pound rose to DM 4.2925 from DM 4.2735; to FFr 12.04 from FFr 11.9250; to SwFr 3.64 from SwFr 3.61; and to Yen 1445 from Yen 1444. Sterling was generally quite firm as Eurosterling and domestic interest rates remained high despite the cut in the UK discount rate and lower UK bank base rates.

The French franc came under pressure, and required intervention in the foreign exchange market by the Bank of France, and the support of much higher Eurofranc interest rates. The Italian lira also lost ground, but showed a slightly firmer trend towards the end of the week.

Gold rose \$34 to \$416.847 after touching a peak of \$416.842 on Aug. 27.

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The French



Tuesday August 31 1982

HIGGS AND HILL
"A better way to build"
 01-9428921

Chinese party faces purge

BY TONY WALKER IN PEKING

A SWEEPING purge of the Chinese Communist Party's 39m members is expected to follow the party's 12th congress opening in Peking today. At the end of the meeting all members are likely to be asked to register for party membership. Acceptance, however, will not be automatic.

It appears Deng Xiaoping, China's most powerful politician, and supporters have devised an ingenious scheme to get rid of many party members without going through messy expulsion procedures.

Deng has said many members were not up to standard. China's paramount leader referred particularly to those, perhaps more than 20m, who joined the party after the start of the Cultural Revolution.

According to well-placed observers the aim of the registration procedure is to trim the party to make it more manageable and to improve the quality of its membership.

Deng and supporters in the moderate faction of the leadership have manoeuvred for several years towards an extensive weeding of those they con-

sider unsuitable. The Discipline Inspection Commission of the party spent at least the past year reviewing individual party memberships.

The Dengists may have calculated also that many present party members will not bother to register in the knowledge their Cultural Revolution activities would make them unacceptable.

A leading official of the Discipline Commission said in an interview with the Xinhua news agency at the weekend that "the main trend in our party is good and its work-style has become better and better."

He added: "Of course, we aim at a fundamental change for the better in the work-style of our party and there is still a long way to go to achieve our goal." This may come as ominous news to millions in the party whose hold on membership is shaky.

The congress seems likely to be one of the most important in the party's history. It will endorse new outward-looking economic policies as well as

approve changes in the party leadership structure. Among the changes are:

- Creation of a central advisory panel of party elders, expected to be led by Deng;

- Abolition of posts of chairman and vice-chairmen—there are six party vice-chairmen;

- Strengthening of the party secretariat under Hu Yaobang, the general secretary, who will relinquish chairmanship but as general secretary, will remain the party's chief executive;

- Retention of the Politburo, in spite of reports to the contrary, but with a reduced role because of the strengthening of the secretariat and the creation of the panel of advisers.

The congress will meet for about a week. It will be followed by a plenary session of the central committee, to elect officials to newly-constituted bodies.

The 1,600-odd congress delegates will elect a new Central Committee. This is expected to include an overwhelming number of Deng's supporters, unlike the more ambivalent present Central Committee, elected in 1977 when Maoists

like Hu Guofeng, the former chairman, were in the ascendancy.

The congress will approve a draft party constitution to encompass organisational changes mentioned above. Other tasks will be to consider a major general political report, expected to be delivered by Hu Yaobang, on developments in and outside China since 1977.

The report will assess the international situation and domestic conditions in China. It is likely to set down modernisation priorities for several decades. These might include a call for more efforts in agriculture, energy development, and transport.

According to a Chinese source the party general secretariat would operate very like one formed in the 1950s under Mr Deng. As with many reforms implemented in the past several years those about to be endorsed by the party congress reflect the way things were done at times in the 1950s and 1960s when pragmatists like Mr Deng and Liu Shaoqi, the former Head of State, were in control.

Leader, Page 14

Arafat quits after 12 years in Lebanon

By Stewart Darby and Nora Boustany in Beirut

MRI YASSIR ARAFAT, chairman of the Palestine Liberation Organisation, sailed from Beirut for Athens yesterday after 12 years in Lebanon.

His historic departure was planned to be a solemn affair. In the event, the scores of journalists and photographers jostling with hundreds of his supporters in the largely destroyed port area, robbed the occasion of its dignity.

Shortly before Mr Arafat's departure 1,500 Syrian troops left Beirut in armoured personnel carriers and heavy artillery pieces.

They were thought to be going to join the 30,000 or so Syrian troops in the Bekaa Valley, in East Lebanon. They rumbled through empty streets early in the morning, their progress unhindered by either Israeli or Christian Phalange troops who control the south-western part of the Beirut-Damascus highway.

The remaining force of about 1,200 Syrian troops is due to leave Beirut today to join the other troops in the Bekaa Valley. At the latest, Syria's withdrawal from Beirut is to be completed on Wednesday.

More than 9,000 PLO fighters and Syrian troops have left West Beirut. It seems likely that all 12,000 fighters due to be evacuated under the plan of Mr Philip Habib, the U.S. special envoy, will have left by tomorrow.

Now that Mr Arafat, Dr George Habash, the leader of the Marxist Popular Front for the Liberation of Palestine, as well as Mr Nayef Hawatmeh, of the Democratic Front for the Liberation of Palestine, have left West Beirut, attention has centred on fears of a military confrontation between the heavily armed Moslem militias that remain in the city and either the Lebanese Army or the Israelis.

The Lebanese Army is supposed to be taking up positions in West Beirut as a preliminary step to disarming all militias.

However, by last night no militia had entered the heart of West Beirut. There is grave concern that the Nasserite Murabitoun, in particular, will resist any attempts to be disarmed.

The leader of the Murabitoun, Mr Ibrahim Koleilat, has said there will be no surrender of arms until the Israelis withdraw. The situation has not been helped by statements

reaching here that Lieutenant-General Rafael Eitan, the Israeli Chief of Staff, has said his troops were ready to go into West Beirut and disarm the Murabitoun. Much will hinge on whether Mr Gemayel manages to allay Moslem fears over the next few days.

TUC leaders are also likely to monitor closely talks expected on Friday between Mr Fowler and the non-TUC Royal College of Nursing, following the RCN's 21 rejection in a ballot of the Government's 7.5 per cent pay offer to nurses.

Uneasy peace in Bekaa Page 2

MIM Holdings in new financing scheme

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

MIM HOLDINGS, the Australian metal and natural resources company, is raising A\$700m (£298m) for its Newlands-Collinsville coal development in Queensland with a new technique designed to draw institutions and other money market investors into long-term project financing for the first time.

In essence, international banks will guarantee part of the financing, which will be raised through the issue of short-term money market paper that can be rolled over continuously for 12 years.

About U.S.\$520m (£208m) will be raised in this way, so that

banks already committed heavily to large project financings in Australia will have to put up the money themselves.

Instead, a group of banks led by Manufacturers Hanover will provide a guarantee facility of U.S.\$320m against the issue of three- and six-month Euronotes, which are akin to a Eurodollar certificate of deposit.

Chemical Bank is arranging a U.S.\$200m back-up facility for the issue of commercial paper in the New York market, for which it will act as sole dealer and agent.

Money market investors who buy the commercial paper and

Euronotes will thus obtain a tradeable short-term asset, whereas the banks providing the guarantee and back-up facility will themselves assume any long-term risk attached to the completion of the project.

A statement yesterday said MIM and its financial adviser, First Boston, are also finalising further conventional loans totalling A\$200m in a mixture of Australian, U.S. and Japanese currency.

Long-term Credit Bank of Japan and Bank of Tokyo will be agents for the Japanese loans, also with a life of 12 years. All the loans will have average margins over Euro-

currency rates of about 3 per cent.

The project comprises the development of a new mine at Newlands, expansion of the existing Collinsville mine, and building of related port and rail installations to provide for the production of 6.3m tonnes a year of steaming and coking coal.

Long-term sales contracts for 90 per cent of the total output have already been announced, with options and current negotiations taking this figure to 98 per cent. The sales are to customers in Europe, Japan, Taiwan, Hong Kong, Korea and other Pacific Basin countries.

Private finance plan for Gatwick rail link

By Hazel Duffy,
Transport Correspondent

A SCHEME to create a privately-financed rail link between Victoria and Gatwick Airport, costing about £45m, is expected to go before Ministers within the next few weeks.

The plans, drawn up by a working party of Treasury, Transport and British Rail, call for a separate company to be formed which would have a new service between Victoria and Gatwick. BTR would be up a 30 per cent share in the company and the rest would be supplied from the private sector.

The company would own the new terminal being built above Victoria Station. Gatwick Station and the rolling stock. It would pay BTR for the use of the tracks, while BTR would also maintain the rolling stock.

BR believes that the scheme provides the best hope of improving the Gatwick service. Construction has started at the Victoria terminal, where checks in facilities for airline passengers are planned, but BR's financial plight offers little chance that the service will be improved unless it is allowed to private capital.

The outline plans will be submitted to Mr David Howell, Transport Secretary, and Sir Peter Parker, BR chairman shortly. The Transport Department is thought to be enthusiastic about the scheme, but it will be the view of the Treasury on its viability which will determine the outcome.

The Treasury has been sceptical so far about other new plans involving private-sector finance and the railways, particularly the Channel Tunnel, because it believes the degree of integration would be too great for the private sector financial element to be designated as true risk capital.

The return on a separate Victoria-Gatwick link would depend on the forecast growth in traffic at Gatwick materialising, which in turn will depend on the second terminal at Gatwick going ahead.

The station at Gatwick has been modernised at a cost of £15m, which the terminal at Victoria is estimated at £20m. Refurbished rolling stock, with specially designed luggage vans, permanently coupled to an electric locomotive would be used on the link.

The plan is that the new company would set its own fares, running a service every 15 minutes. BR recognises that the present Gatwick service and some of the rolling stock are not satisfactory. If the plans receive Government approval, it would hope to have the link working by the spring of 1984.

Murray calls for tougher action in health workers' pay dispute

BY PHILIP BASSETT, LABOUR CORRESPONDENT

MR LEN MURRAY, TUC general secretary, said yesterday that the programme of industrial action taken so far in the National Health Service over pay must be stepped up to persuade the Government to listen to the health workers' case.

Such a firm, forthright statement from a leading figure in the trade union movement—and one usually known for his reticence—will give new heart to the health service strikers. It may well also increase moves by non-NHS workers for widespread sympathy action on the day of the NHS one-day general strike called for September 22.

Mr Murray, speaking in a radio interview, said: "We have to try to get the Government to listen. The man and woman in the street are saying that the hospital workers ought to get a better deal. More and more doctors are saying it. The problem is—how do we get the Government to listen?"

"We have to escalate the action in order to get the Gov-

ernment to listen to what must be done."

Mr Murray acknowledged that intensified action might lose the measure of public support they were enjoying.

He said: "Of course there is a risk of that, but it is a risk we have to take."

Replying to the suggestion from Mr Norman Fowler, Social Services Secretary, that the unions "cool it", Mr Murray said: "The whole thing would be cooled if Mr Fowler would say: 'I will come to the negotiating table, or conciliation, or arbitration.'"

Mr Murray said the Government would have to think again. Everybody made mistakes. The Government ought now to acknowledge that the hospital workers have a good case which should be met.

He forecast a "tremendous response" to the NHS dispute from other unions at next week's TUC Congress in Brighton. The full TUC general council is likely to decide this week in favour of a recommendation from the RCN's 21 rejection in a ballot of the Government's 7.5 per cent pay offer to nurses.

TUC leaders are also likely to monitor closely talks expected on Friday between Mr Fowler and the non-TUC Royal College of Nursing, following the RCN's 21 rejection in a ballot of the Government's 7.5 per cent pay offer to nurses.

Uneasy peace in Bekaa Page 2

BY CHRISTIAN TYLER

THE TUC is planning to bring the huge assets and income of workers' occupational pension funds under close trade union control.

It aims to change the investment policies of the funds by persuading trade union member trustees to challenge the orthodoxy of the funds' investment advisers and managers.

Its two priorities will be to limit and eventually reduce overseas investment—which has been greatly increased, especially since the lifting of exchange controls—and to use the funds for UK industrial investment. Long-term capital growth rather than maximum short-term rate of return will be the criterion.

Although the TUC argues that all this can be done without violating trustees' existing legal obligations, its bid for funds will be seen by many in the City as nakedly political. The TUC plans are tailored to fit a revamped industrial strategy and State planning system drawn up in tandem with the Labour Party.

An illustration of what would happen if the TUC's strategy is successful has already been provided by Mr Arthur Scargill, president of the National Union of Mineworkers, and a new trustee of the Coal Board pension fund. He and his four fellow trustees from the NUM have rejected the fund's latest investment plan because it seeks to increase the ratio of investment placed abroad and with the oil companies, a competitor industry.

There has been talk of a test case in the courts, after a clash

between the fund's solicitors and the union's own legal advisers. But the NUM trustees are convinced they are entitled not only to block the disputed placing but also to order the sale of existing holdings.

The TUC's plans are set out in a policy document published today after several years of consultation. Some of the details are still tentative and have to be tested in the first instance at a special conference of trade union member trustees on November 11.

These trustees, it is suggested, must press for an initial investment limit of 10 per cent of their funds' overseas assets—present ratios are as high as 20 per cent in some cases—which would be reduced as UK opportunities increased. Direct investment in South Africa would be avoided entirely. If necessary, trade union negotiators should demand alterations to trust deeds to make that policy explicit.

Report on Pension Fund Investment and Trusteeship: TUC, Congress House, Great Russell Street, London WC1.

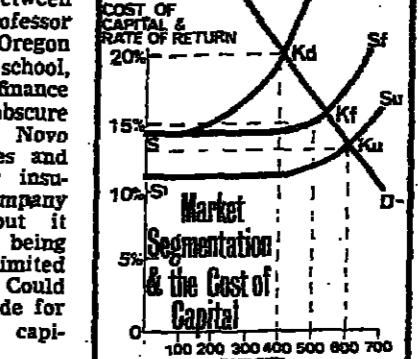
CBI Continued from Page 1

The balance of payments is expected to achieve a surplus on current account of about £2bn this year, but increasing import penetration is expected to swing into a deficit of £500m the following year.

This compares with a forecast of a surplus of £1bn for 1983 predicted in May before the extent of import penetration was known, and when exports appeared more buoyant in 1982.

THE LEX COLUMN

Why Novo spread its wings



capital budget can climb still higher.

This may be just an airy-fairy way of saying that ambitious companies have to be prepared to move to where the money is, but Novo has been impressively successful in homing in on the point Ku.

The first step was a convertible Eurobond issue in 1979, boosted by "road shows" in major European cities. There was also a London Stock Exchange listing, and with the abolition of UK exchange controls in 1979 British interest greatly expanded. There followed an equity issue, and with biotechnology suddenly becoming fashionable, Novo had become an international glamour stock.

Voting control

Then it was on to the U.S. earnest, with seminars, the hiving of Goldman Sachs' advisers, a quote on the over-the-counter market, and in May 1981 a U.S. share issue and New York Stock Exchange listing. At the present time, a much as 20 per cent of the stock may be held outside Denmark, although the Novo Foundation in Denmark remains firmly in control with 96.3 per cent of the total votes than to its ownership of the A stock.

Ironically, Novo's share price is now performing even better than that of many of its U.S. rivals, whose glamour has faded. Novo is a company with a track record and a broad range of products on the market, whereas with some of the U.S. biotech stars the concept has run some way ahead of the product.

But can any general lesson be drawn from the case history of Novo? It is tempting to say that if everything clicks into place, and if a company is really prepared to make the effort, the international capital market is ready to be tapped. * * *

* Internationalising the Cost Capital in Theory and Practice: Novo experience: national policy implications

Arthur I. Stonehill and Karen B. Dullum. To be published shortly in Copenhagen.

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